DEBT CAPACITY ADVISORY COMMITTEE
COMMONWEALTH OF VIRGINIA
December 15, 2006

3:30 P.M.
TREASURY BOARD CONFERENCE ROOM
James Monroe Building
101 North 14th Street, 3rd Floor
Richmond, Virginia 23219

Members Present:	Jody M. Wagner, Chairman Richard D. Brown William K. Butler, II Walter W. Craigie Walter J. Kucharski Philip A. Leone J. Braxton Powell
Others Present:	Evelyn R. Whitley, Department of the Treasury Tracy L. Clemons, Sr., Department of the Treasury David Von Moll, State Comptroller Robert S. Young, Department of the Treasury Janet A. Aylor, Department of the Treasury April Kees, Senate Finance Committee Betsey Daley, Senate Finance Committee Barbara Reese, Virginia Department of Transportation Sherri Wyatt, Auditor of Public Accounts Calvin Johnson, Department of the Treasury Melissa Palmer, Department of the Treasury Willow Lau, Department of Treasury Erin Allen, Department of Treasury

Call To Order and Approval of Minutes

Chairman Wagner called the meeting to order at 3:37 p.m. Chairman Wagner asked whether any person in attendance wished to comment publicly on any matter within the Committee's purview. No public comments were made.

Chairman Wagner congratulated Mr. Craigie on being re-appointed to another term and noted that since its inception, the Committee and the Commonwealth has benefited greatly from his experience and expertise.. Chairman Wagner then asked if there were any questions or corrections relating to the minutes from the Committee's meeting on December 16, 2005. Hearing none, she asked for a motion to approve the minutes. Mr. Craigie motioned to approve the minutes with Mr. Butler seconding the motion and the minutes were unanimously approved.

Staff Report on Updated Debt Capacity Model and Moral Obligation Debt

Treasury staff presented its report on the updated Model. Mr. Clemons briefly reviewed the Model's updated interest rate, debt-issuance assumptions and provide the annual debt issuance capacity solution, based on the official revenue forecast . He explained that the Model generated an equal annual issuance capacity of $945.57 million for fiscal years 2008 through 2016. Mr. Clemons also reviewed the debt service included in the Model and the Model's various sensitivity analyses.

Mr. Clemons discussed the Model's background information along with an update on tax-supported debt issuance since the close of fiscal year 2006.

Mr. Clemons concluded his remarks with a review of the Commonwealth's moral obligation and contingent liability debt balances. He informed the Committee that the VPSA had redeemed all outstanding moral obligation bonds and closed its moral obligation program, therefore that authority would no longer be included in the moral obligation analysis. He reminded the Committee that the only active issuer of moral obligation debt was the Virginia Resources Authority ("VRA"). He noted that the VRA cap was not expected to be exceeded during the next biennium.

Discussion of the Final Report to the Governor and General Assembly

Ms. Whitley led the Committee's review of the draft report letter. She stated that the Model's assumed interest rates for future debt issuance were 13 basis points lower than the rates used in the Committee's 2005 report. She also stated that there had been a 30 basis point reduction over the prior 2 year period. She reminded the Committee that the Model mitigated highly volatile movements in rates by using an average rate based on eight quarters of The Bond Buyer 11 Bond Index.

Chairman Wagner asked if there were any questions concerning the updated Model or the draft Committee report letter. Hearing none, she requested a motion to adopt the Debt Capacity Advisory Committee final report to the Governor and General Assembly dated as of December 15, 2006 (see Exhibit 1). Mr. Craigie moved to approve the final report with Mr. Kucharski seconding the motion with the members present voting unanimously to approve the final report.

Mr. Craigie complimented the committee and staff on the development of its annual process and report, which has become a valuable resource, recognized by the rating agencies as well as other states. He noted that while much of the information presented in the report was of value to the Committee, perhaps, Treasury could consider compressing future Debt Capacity Reports. He suggested that a more simplified version of the report allow the average citizen to get a clearer picture of the Commonwealth's debt and how the Commonwealth compares with other states. The members agreed and Chairman Wagner recommended that staff explore such changes for future reports.

Other Business

Ms. Whitley provided a review of the rating agency reports.. Ms. Whitley acknowledged that each of the three major rating agencies had affirmed the Commonwealth's AAA rating in conjunction with the Commonwealth's November issue of General Obligation Bonds. She added that Standard & Poor's had initiated a new survey of states, which included noteworthy comments on Virginia's ongoing financial management and the state's strong ranking amongst the other states for its debt management. She noted that a listing of the ratings for all of the states was included in the Committee's package (see Exhibit 2).

Chairman Wagner noted that the 2006 Appropriation Act contained a provision requiring the Auditor of Public Accounts to analyze debt of state supported institutions of higher learning and provide a report to the legislative money committees and the DCAC. Mr. Kucharski distributed the report (see Exhibit 3) and provided a brief overview. Chairman Wagner thanked him for his comments and informed the Committee that further actions related to this report might be taken up during the course of the coming year, pending further direction from the General Assembly.

With no further business, Chairman Wagner adjourned the meeting at 4:05 p.m.

Exhibit 1

Debt Capacity Advisory Committee

Report to the Governor and General Assembly

December 15, 2006

Commonwealth of Virginia

Debt Capacity Advisory Committee

Report to the Governor and General Assembly

December 15, 2006

COMMONWEALTH of VIRGINIA

Office of the Governor

Jody M. Wagner
Secretary of Finance

P. O. Box 1475
Richmond, Virginia 23218

December 15, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
Patrick Henry Building, 3rd Floor
Richmond, Virginia 23219

The Honorable Bruce F. Jamerson
Clerk of the House of Delegates
Virginia House of Delegates
Patrick Henry Building, 2nd Floor
Richmond, Virginia 23219

The Honorable Susan Clarke Schaar
Clerk of the Senate
Senate of Virginia
Patrick Henry Building, 2nd Floor
Richmond, Virginia 23219

Dear Governor Kaine, Mr. Jamerson, and Ms. Schaar:

The Debt Capacity Advisory Committee (the "Committee") is required to annually review the size and condition of the Commonwealth's tax-supported debt and submit to you an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next two years. In addition, the Committee is required to review annually the Commonwealth's moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. We are pleased to present our annual report.

The Debt Capacity Model

In this report, we reaffirm our use of the Debt Capacity Model as the means of calculating the Commonwealth's tax-supported debt affordability. The Model calculates the maximum amount of incremental debt that may prudently be issued by the Commonwealth over the next ten years and features an additional two years of debt issuance capacity as a reserve beyond the end of the ten-year issuance period. The reserve is used as a hedge against variations in other assumptions used in the Model, such as interest rates and revenue growth. The Model uses the ratio of tax-supported debt service as a percentage of revenues as its base calculation. The ratio of debt service as a percentage of revenues should be no greater than 5%. In our view, 5% is the

5% is the maximum ratio consistent with maintaining the premier credit ratings on the Commonwealth's debt. The Model incorporates the official revenue estimates contained in the Governor's proposed budget submitted December 15, 2006. The Debt Capacity Model is attached as
Exhibit A.

The concept of debt capacity management and the 5% maximum ratio were introduced in *An Assessment of Debt Management in Virginia*, a report issued by the Secretary of Finance in December 1990. The Debt Capacity Advisory Committee adopted the 5% maximum measure in 1991 and has fully endorsed this ratio every year since that time. The credit ratings assigned to the Commonwealth's obligations are, in part, based upon its sound debt management policies. Moody's Investors Service, in a report issued this fall, specifically referenced the Commonwealth's conservative policies, as follows:

> "The highest rating reflects the Commonwealth's sound economy, its long history of proactive and conservative fiscal practices and its good management of a complex debt structure." *(Moody's Investors Service, New Issue report, October 31, 2006.)*

Moral Obligation or Contingent Liability Debt and Other Findings

The Committee also reviewed outstanding moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. The Committee reviewed the types of programs, statutory caps, outstanding amounts, and other financial data for the three issuers that currently have debt outstanding that is backed by the Commonwealth's moral obligation pledge. The two issuers are the Virginia Housing Development Authority and the Virginia Resources Authority. Each of these issuers' outstanding moral obligation debt is currently within its statutory limit. The Virginia Housing Development Authority established a new multi-family housing program in 1999 that does not carry the Commonwealth's moral obligation pledge and it expects to issue all of its multi-family housing bonds under that program.

The Virginia Resources Authority has an authorization to issue up to $900 million of moral obligation debt. The Authority issues moral obligation bonds under its programs to provide low-cost financing to localities for water, wastewater, solid waste, storm water, public safety, brownfields remediation, public transportation and airport projects.

The Virginia Public School Authority is the only issuer of non-tax-supported debt that utilizes a sum sufficient appropriation as an additional credit enhancement. This represents a contingent liability for the Commonwealth. The Virginia Public School Authority issued its first series of Equipment Technology Notes utilizing the sum-sufficient appropriation in 2001, receiving a "double A plus" rating from each of the three major rating agencies.

Information on the amount of outstanding debt, statutory limits and debt ratings for moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability is shown in Exhibit D. Sensitivity analyses are also included which demonstrate the impact on tax-supported debt capacity resulting from the conversion of moral obligation debt to tax-supported debt. The sensitivity analyses are prepared using worst-case scenarios showing the impact of the conversion of all moral obligation debt. If any such debt were ever converted, however, it would occur on an issue-by-issue basis. Conversion would occur if the General Assembly appropriated funds to replenish a debt service reserve fund shortfall if requested by a moral obligation issuer. For example, an issuer would request that the Governor and General Assembly replenish the debt service reserve fund if, in the event of a default on the underlying revenue stream, the issuer was forced to draw on the debt service reserve fund to pay debt service.

The Committee also reviewed the current and historical debt position of the Commonwealth. Part of this review included other authority debt not supported by taxes. Data included in Exhibit C summarizes information considered by the Committee.

Recommendations

Historically, Virginia has followed a capital budgeting and approval process in which projects and the financing thereof have been approved during the even-year General Assembly Session during which a new biennial budget is adopted. The budget is amended, if necessary, during the odd- or second year. The Committee therefore has provided the following amounts for the current biennium since this report coincides with the 2007 General Assembly Session during which the new biennial budget for the 2007-2009 budget biennium will be considered.

The Committee notes that the period of time between the inception of capital projects and its permanent financing can vary greatly, usually spanning several years. Therefore the Committee has determined that consideration should be given to the projected issuance schedule when making its recommendations.

1. Model Results – Tax-Supported Debt Authorization

The Committee believes that based upon the Debt Capacity Model and the Governor's Official Revenue Forecast of December 15, 2006:

- A maximum of $945.57 million of tax-supported debt could prudently be authorized by the 2007 Session of the General Assembly; and

- A maximum of $945.57 million of tax-supported debt could prudently be authorized by the

2008 Session of the General Assembly.

This maximum amount of authorization is above and beyond the tax-supported debt that is currently authorized but unissued. The increase in debt issuance capacity from the amounts recommended in the 2005 Report is mainly attributable to additional revenue in the December 2006 revenue forecast, lower interest rates and decreased new tax-supported debt authorizations during the 2006 Session of the General Assembly.

The Model results are sensitive to changes in interest rates and revenues. Specifically, a one percent change in general fund revenues in each and every year of the Model solution horizon will change the amount of annual debt capacity by approximately $15.19 million. A change in general fund revenues of $100 million in each and every year of the Model solution horizon will produce approximately $6.81 million of incremental annual debt capacity change. More detail on the Model's sensitivity to changes in interest rates and revenues can be found in Exhibit B.

The Committee notes that the interest rates used in the Debt Capacity Model have decreased by 13 basis points since the December 2005 Report. The Bond Buyer 11 Index is the benchmark index used in the Model. The Model uses the average of the Bond Buyer 11 Index for the last eight quarters as its base interest rate for authorized but unissued general obligation bonds and adds an additional fifty basis points for non-general obligation bonds. The Committee notes that the effect of interest rate movements over any one year is mitigated since the base rate is an average of the last eight quarters.

The Committee recognizes that it cannot predict the future level of interest rates or the pace of revenue growth and recognizes the sensitivity of the Model results to such factors. Attached as Exhibit B are sensitivity analyses that demonstrate the impact on the Model of changes in external factors such as interest rates and revenues, or internal factors such as excess capacity. The Model calculates the maximum amount of tax-supported debt that could be prudently authorized and issued based on the assumptions incorporated in the Model. It does not constitute a recommendation of the Committee that such amount actually be authorized. In the opinion of the Committee, debt issuance in excess of the recommended amounts could result in the Commonwealth exceeding the maximum ratio of 5%. See Exhibit C for further narrative.

The Committee makes no recommendations as to which projects, if any, should be chosen for debt financing or how they should be prioritized. These decisions are most appropriately made through the budgetary and legislative processes.

2. Consider Eliminating Authorizations Not Likely to be Issued:

The Committee endorses the efforts of the General Assembly and the Governor to continue to rescind authorizations for projects that are not likely to be used. The Committee recommends that unnecessary authorizations continue to be identified and rescinded, as appropriate.

3. Alternative Financing of State Projects:

We continue to support the use of traditional financing vehicles such as the Virginia Public Building Authority and the Virginia College Building Authority for financing state projects as opposed to capital lease-supported transactions. Certain state projects have been financed in the past using local and special purpose authorities, such as industrial development authorities or redevelopment and regional housing authorities. Due to the structure of such financings, they often result in higher financing costs than if the financing had been completed through an established state program. In such cases, the Commonwealth has limited control of the process, however such bonds are normally considered tax-supported debt and are included in the Model because the Commonwealth is responsible for debt service payments over the life of the bonds.

4. Moral Obligation and Contingent Liability Debt:

We make no specific recommendation on the programs or levels of the statutory caps for the three issuers currently utilizing the moral obligation pledge of the Commonwealth.

Conclusion

We trust this report and our recommendations are useful as we move forward together into the 2007 Session of the General Assembly. It has been our pleasure to advise you on including the concepts of debt affordability and debt capacity management into the Commonwealth's debt management programs. The Commonwealth of Virginia has become an acknowledged leader among states in the area of debt capacity management, and is repeatedly held out as an example of how the process should work.

Sincerely,

/s/ Jody M. Wagner

Jody M. Wagner, Chairman

/s/ Walter W. Craigie

Walter W. Craigie

/s/ J. Braxton Powell

J. Braxton Powell

/s/ Walter J. Kucharski

Walter J. Kucharski

/s/ William K. Butler, II

William K. Butler, II

/s/ Philip A. Leone

Philip A. Leone

/s/ Richard D. Brown

Richard D. Brown

Attachments

Exhibit A

The Debt Capacity Model

Commonwealth Debt

- Rating agencies view control of tax-supported debt as one of four key factors affecting credit quality.

  – control of debt burden
  – economic vitality and diversity
  – fiscal performance and flexibility
  – administrative capabilities of government

- Virginia's goal is to maintain AAA/Aaa/AAA ratings for General Obligation debt.

  – Commonwealth's "AAA" rating reaffirmed by Fitch Ratings, Moody's and Standard & Poor's (November 2006)

- Definition of tax-supported debt.

  – debt service payments made or ultimately pledged to be made from general government funds
  – corresponds with rating agency definition
  – contrast with debt not supported by taxes such as moral obligation debt

Debt Capacity Model

General Observations and Assumptions

- Virginia's Debt Affordability Model:
  - Debt Affordability Measure

    $$\frac{\text{Tax-Supported Debt Service}}{\text{Revenues}} \leq 5\%$$
  - 10-year issuance period
  - Incorporates currently authorized but unissued debt
  - Blended revenue growth rate
  - Term and structure:
    - 20-year bonds
    - Assumed interest rate of 4.33%for 9(b) and 9(c) General Obligation debt. 9(d) debt has an assumed interest rate of 4.83%.
    - Level debt service (except 9(b) debt)
    - 9(b) General Obligation debt is amortized on a level principal basis
  - Actual debt service of all issued tax-supported debt, including capital leases, installment purchases and regional jail reimbursement agreements (see page A-3 for liability inclusion criteria).
  - Blended Revenues:
    - General fund revenues and state revenues in Transportation Trust Fund added together, plus transfers of ABC and Lottery profits. For purposes of the Model, 9(c) revenues and debt service of self-supporting projects are offset and have a neutral impact on debt capacity.
  - Interest Rates:
    - Assumed issuance of authorized but unissued tax-supported debt and associated debt service, computed using estimated interest rates based on the average of the last eight quarters of The Bond Buyer 11 Bond Index for general obligation debt 9(b) and 9(c), and a 50 basis point higher rate for 9(d) debt.

Debt Capacity Model
General Observations and Assumptions

Debt Capacity Advisory Committee
Liabilities included in the Debt Capacity Model

1) Outstanding tax-supported debt as determined by the DCAC.

   - General obligation bonds (Section 9(a), 9(b), and 9(c)).

   - Obligations issued by the Commonwealth Transportation Board or Virginia Port Authority that are secured, in whole or in part, by the Transportation Trust Fund.

   - Obligations issued by the Virginia Public Building Authority and the Virginia College Building Authority secured, in whole or in part, by general fund appropriations.

   - Obligations payable under regional jail Reimbursement Agreements between the Treasury Board and localities, regional jail authorities or other combination of localities.

   - Capital leases (80% of total of first year amounts in Commonwealth CAFR for both primary government and component units).

   - Installment purchases (80% of total of first year amounts in Commonwealth CAFR for both primary government and component units).

   - Obligations for which the debt service is paid from payments received from the Commonwealth on a capital lease.

2) Authorized but unissued tax-supported debt as determined by the DCAC.

   - The issuance of obligations to fund a project(s) must be authorized by an Act of the General Assembly (either an Act specifically authorizing the issuance of debt, or Appropriation Act language) with no contingency for subsequent General Assembly approval. If obligations are authorized but will require further action by the General Assembly before they can be issued, then such obligations will not be included in the Model. The practical application of this rule will be that if debt can be issued for a project without any further action on the part of the General Assembly, such debt will be considered as authorized for issuance.

Debt Capacity Model
General Observations and Assumptions

Debt Capacity Advisory Committee
Liabilities included in the Debt Capacity Model

3) That portion of outstanding moral obligation debt for which the underlying debt service reserve fund has been utilized to pay all or a portion of debt service and for which the General Assembly has appropriated funds to replenish all or a portion of such debt service reserve fund as requested by the moral obligation issuer.

- In the event that a moral obligation issuer has experienced an event of a default on the underlying revenue stream and such issuer has been forced to draw on the debt service reserve fund to pay debt service, the Committee shall immediately meet and review the circumstances surrounding such event and report its findings to the Governor and the General Assembly.

- In the event this section is invoked, the Committee's Report to the Governor and General Assembly shall include, one Model scenario showing annual tax-supported debt capacity with inclusion of the moral obligation debt (or portion thereof) in question.

- Inclusion of the debt in the Model is in no way intended to bind the Governor or General Assembly to make future appropriations to replenish future draws on such debt service reserve fund(s).

- The subject debt will be removed from the Model once the General Assembly has not appropriated funds to replenish such debt service reserve fund(s).

Debt Capacity Model

Currently Authorized Tax-Supported Debt

	9(b)	9(c) Higher Education	VPBA	VCBA 21st Century Equipment	VCBA 21st Century Projects	9(d) Transportation	Capital Leases	Total
Authorized & Unissued as of December 31, 2006	$ 547.3	$ 322.9	$ 473.7	$ 136.9	$ 121.1	$ 97.1	$ 34.2	$ 1,733.2
Assumed Issued[1]:								
FY 2007	-	-	-	-	-	-	-	-
FY 2008	-	-	-	85.2	50.0	-	-	135.2
FY 2009	200.0	100.0	178.0	51.7	71.1	-	-	600.8
FY 2010	200.0	100.0	110.5	-	-	97.1	34.2	541.8
FY 2011-16	147.3	122.9	185.2					455.4
Total	547.3	322.9	473.7	136.9	121.1	97.1	34.2	1,733.2
Authorized Debt Assumed Unissued	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Debt is assumed issued when the first full year of debt service is paid.

Debt Capacity Model

DEBT CAPACITY MODEL
(Dollars in Millions)
December 15, 2006

Debt Capacity Maximum Ratio

Debt Service as a % of Revenue = **5.0%**

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
Fiscal Year	**Blended Revenues**	**Base Capacity to Pay Debt Service**	**9(c) Revenue Equal to Debt Service**	**Total Capacity to Pay Debt Service**	**Annual Payments for Debt Service on Debt Issued**	**Annual Payments for Debt Service on All Planned Debt Issuances**	**Actual & Projected Debt Service as a % of Revenues**	**Net Capacity to Pay Debt Service**	**Amount of Additional Debt that may Be Issued**	**Debt Service on Amount of Additional Debt that may Be Issued**	**Remaining Capacity to Pay Debt Service**	**Total Debt Service as a % of Revenues**
Actual 2000	11,875.81	593.79	68.54	662.33	344.43	N/A	2.32%	249.36	N/A	N/A	249.36	2.32%
Actual 2001	12,271.52	613.58	70.68	684.26	395.54	N/A	2.65%	218.04	N/A	N/A	218.04	2.65%
Actual 2002	12,003.78	600.19	67.36	667.55	413.58	N/A	2.88%	186.61	N/A	N/A	186.61	2.88%
Actual 2003	12,001.34	600.07	68.41	668.47	430.60	N/A	3.02%	169.47	N/A	N/A	169.47	3.02%
Actual 2004	13,142.20	657.11	65.68	722.79	439.23	N/A	2.84%	217.88	N/A	N/A	217.88	2.84%
Actual 2005	14,982.60	749.13	61.77	810.90	446.27	N/A	2.57%	302.86	N/A	N/A	302.86	2.57%
Actual 2006	16,520.10	826.01	61.83	887.84	480.84	N/A	2.54%	345.17	N/A	N/A	345.17	2.54%
2007	17,453.60	872.68	64.34	937.02	546.67	0.00	2.76%	390.35	**945.57**	0.000	390.35	2.76%
2008	18,128.50	906.43	66.68	973.10	568.56	76.91	3.19%	327.63	**945.57**	73.300	254.33	3.60%
2009	19,043.70	952.19	69.21	1,021.39	557.98	140.82	3.31%	322.60	**945.57**	146.600	176.00	4.08%
2010	20,052.50	1,002.63	71.32	1,073.94	529.87	182.37	3.20%	361.71	**945.57**	219.900	141.81	4.29%
2011	20,993.10	1,049.66	76.01	1,125.66	503.44	210.53	3.04%	411.69	**945.57**	293.200	118.49	4.44%
2012	21,921.90	1,096.10	69.99	1,166.08	467.66	219.14	2.81%	479.28	**945.57**	366.500	112.78	4.49%
2013	22,890.00	1,144.50	68.93	1,213.43	450.06	199.16	2.54%	564.20	**945.57**	439.800	124.40	4.46%
2014	23,920.83	1,196.04	62.49	1,258.53	418.77	185.86	2.27%	653.91	**945.57**	513.100	140.81	4.41%
2015	25,177.61	1,258.88	62.19	1,321.07	405.28	182.79	2.09%	733.00	**945.57**	586.400	146.60	4.42%
2016	26,502.63	1,325.13	59.87	1,385.00	382.11	181.61	1.90%	821.28	**945.57**	659.700	161.58	4.39%

10 Year Average:	$945.57	Excess Capacity:	$1,891.15
			2.0000

[1] Revenues include the actual fiscal year revenues per the Annual Reports of the Comptroller (2000-2005), December Standard Forecast of the General Fund, including Virginia Health Care Fund revenue as permitted by Section 32.1-366 of the Code of Virginia and transfers from the Virginia Lottery and the Alcoholic Beverage Control Board, dated December 15, 2006, and certain revenues from the Transportation Trust Fund official revenue forecasts as of November 2006.

[2] Base Capacity to Pay Debt Service equals 5% of the Revenues listed in Column [1].

[3] Self-supporting 9(c) Revenue Equal to 9(c) Debt Service.

[4] Total Capacity to Pay Debt Service equals Column [2] plus Column [3].

[5] Equals the annual payments of principal and interest for all currently outstanding tax-supported debt issued through December 31, 2006.

[6] Equals the annual estimated payments of principal and interest for all currently authorized tax-supported debt planned for issuance within the next ten fiscal years. See Assumed Issuances of Currently Authorized but Unissued Tax-Supported Debt. Also includes debt service for long-term capital leases, installment purchase obligations and regional jail reimbursements.

[7] Equals annual payments for debt service on debt issued and planned debt issuances less 9(c) revenue equal to debt service, divided by Revenues. 9(c) revenues and debt service are treated as offsetting.

[8] Equals the amount of revenue available to pay debt service after principal and interest on all currently outstanding and all planned issuances of tax-supported debt has been paid. Column [4] - Column [5] -Column [6]. 9(c) Revenues and debt service are treated as offsetting.

[9] Equal to annual amount of additional principal that may be issued without violating the parameters of the model.

[10] Equal to annual amount of principal and interest to be paid on Column [9].

[11] Equals Column [8] minus Column [10].

[12] Equals the sum of all debt service payments (less 9(c) debt service) divided by Revenues. (Column [5] + Column [6] + Column [10] - Column 3) / Column [1].

Debt Capacity Model

DEBT CAPACITY MODEL REVENUE DATA

December 15, 2006

(Dollars In Millions)

Fiscal Year	General Fund	Transportation Trust Fund [10]	General Fund Growth	Transportation Trust Fund Growth	ABC Profit Transfer	Lottery Profit Transfer	Total Revenue [7]	Blended Revenue Growth Rate [8]
Actual 1996	7,283.56 (1)	561.76 (3)	5.85% (1)	2.79% (3)	26.00 (1)	332.60 (1)	8,203.92	5.74%
Actual 1997	8,133.55 (1)	588.08 (3)	11.67% (1)	4.69% (3)	23.80 (1)	343.00 (1)	9,088.43	10.78%
Actual 1998	8,811.04 (1)	603.00 (3)	8.33% (1)	2.54% (3)	20.70 (1)	318.90 (1)	9,753.64	7.32%
Actual 1999	9,737.70 (1)	643.82 (3)	10.52% (1)	6.77% (3)	25.50 (1)	321.90 (1)	10,728.92	10.00%
Actual 2000	10,831.53 (1)	689.78 (3)	11.23% (1)	7.14% (3)	30.20 (1)	324.30 (1)	11,875.81	10.69%
Actual 2001	11,160.73 (1)	753.29 (3)	3.04% (1)	9.21% (3)	28.10 (1)	329.40 (1)	12,271.52	3.33%
Actual 2002	10,743.02 (1)	749.33 (4)	-3.74% (1)	-0.53% (4)	25.40 (1)	367.20 (1)	11,884.95	-3.15%
Actual 2003	10,867.10 (1)	744.94 (4)	1.15% (1)	-0.59% (4)	14.20 (1)	375.10 (1)	12,001.34	0.98%
Actual 2004	11,917.90 (1)	799.70 (4)	9.67% (1)	7.35% (4)	16.80 (1)	407.80 (1)	13,142.20	9.51%
Actual 2005	13,687.30 (1)	846.50 (4)	14.85% (1)	5.85% (4)	24.90 (1)	423.90 (1)	14,982.60	14.00%
Actual 2006	15,123.20 (2)	912.90 (4)	10.49% (2)	7.84% (4)	30.00 (2)	454.00 (2)	16,520.10	10.26%
2007	16,081.60 (2)	938.40 (4)	6.34% (2)	2.79% (4)	27.30 (2)	406.30 (2)	17,453.60	5.65%
2008	16,722.50 (2)	971.50 (4)	3.99% (2)	3.53% (4)	29.10 (2)	405.40 (2)	18,128.50	3.87%
2009	17,599.50 (2)	1,009.70 (4)	5.24% (2)	3.93% (4)	29.10 (2)	405.40 (2)	19,043.70	5.05%
2010	18,569.00 (2)	1,049.00 (4)	5.51% (2)	3.89% (4)	29.10 (2)	405.40 (2)	20,052.50	5.30%
2011	19,472.80 (2)	1,085.80 (4)	4.87% (2)	3.51% (4)	29.10 (2)	405.40 (2)	20,993.10	4.69%
2012	20,369.50 (2)	1,117.90 (4)	4.60% (2)	2.96% (4)	29.10 (2)	405.40 (2)	21,921.90	4.42%
2013	21,318.20 (2)	1,137.30 (4)	4.66% (2)	1.74% (6)	29.10 (2)	405.40 (2)	22,890.00	4.42%
2014	22,320.60 (2)	1,165.73 (6)	4.70% (2)	2.50% (6)	29.10 (2)	405.40 (2)	23,920.83	4.50%
2015	23,548.23 (5)	1,194.88 (6)	5.50% (5)	2.50% (6)	29.10 (9)	405.40 (9)	25,177.61	5.25%
2016	24,843.39 (5)	1,224.75 (6)	5.50% (5)	2.50% (6)	29.10 (9)	405.40 (9)	26,502.63	5.26%

(1) Annual Reports of the Comptroller, FY 1995-2005.
(2) The December Standard General Fund Forecast for FY 2007-2014, dated December 15, 2006, including Virginia Health Care Fund revenue as permitted by Section 32.1-366 of the Code of Virginia.
(3) Department of Motor Vehicles.
(4) Department of Taxation.
(5) Flat growth rate of 5.50% for years 2015-2016, per Department of Taxation on December 12, 2006.
(6) Flat growth rate of 2.50% for years 2014-2016, per Department of Taxation on December 12, 2006.
(7) Total Revenue = GF + TTF + ABC + Lottery Revenues.
(8) Blended Revenue Growth Rate = (Current FY Total Revenue / Prior FY Total Revenue) - 1.
(9) FY 2015 - 2016 based on FY 2007 - 2014 Forecasts per December Standard General Fund Forecast, dated December 15, 2006.
(10) Does not include Highway Maintenance and Operating Fund, Federal Grants and Contracts or Toll Revenues.

Debt Capacity Model

Annual Debt Service Requirements and Other Long-Term Obligations
Outstanding As of June 30, 2006 Plus Fiscal Year 2007 Issuance Through December 31, 2006*
(Dollars in Thousands)

Fiscal Year Ending June 30	General Obligation Debt Sections 9(a), 9(b) and 9(c)	Other Tax-Supported Debt Section 9(d)	Capital Lease and Installment Purchases	Regional Jail Reimbursements	Debt Service on Planned Issuances	Debt Service on Unallocated Debt Capacity	GRAND TOTAL
2007	153,849	392,826	51,600	-	-	-	598,275
2008	154,523	414,042	51,600	2,632	22,675	73,300	718,772
2009	149,201	408,778	51,600	2,634	86,586	146,600	845,399
2010	141,168	388,699	51,600	2,633	128,135	219,900	932,135
2011	133,924	369,520	51,600	2,636	156,297	293,200	1,007,177
2012	118,883	348,779	51,600	2,636	164,899	366,500	1,053,297
2013	115,020	335,043	51,600	2,637	144,928	439,800	1,089,028
2014	100,826	317,948	51,600	1,902	132,352	513,100	1,117,728
2015	93,170	312,114	51,600	-	131,186	586,400	1,174,470
2016	81,206	300,904	51,600	-	130,015	659,700	1,223,425
TOTAL	$ 1,241,769	$ 3,588,652	$ 516,003	$ 17,709	$ 1,097,074	$ 3,298,500	$ 9,759,707

* Preliminary and unaudited

The Debt Capacity Model

Parameters of the Model

(1) **Blended Revenues** include all general fund revenues (exclusive of transfers), ABC and Lottery profits transferred to the general fund and state tax revenues in the Transportation Trust Fund.

(2) **Base Capacity to Pay Debt Service** is calculated as the product of the Debt Capacity Maximum Ratio and Revenues. [Column 2 = Column 1 x .05]

(3) **9(c) Revenues** represents 9(c) revenue equal to debt service on outstanding 9(c) debt.

(4) **Total Capacity to Pay Debt Service** is calculated as the Base Capacity plus 9(c) revenues equivalent to 9(c) debt service. It represents the maximum level of debt service allowed given the 5% debt service/revenues ratio. [Column 4 = Column 1 x 5%+ Column 3]

(5) **Annual Payments for Debt Service on Debt Issued** is actual debt service on all tax-supported debt outstanding at the end of the most recent fiscal year and on any issuance to date since fiscal year end.

(6) **Annual Payments for Debt Service on All Planned Debt Issuances** is the estimated amount of debt service for currently authorized and unissued tax-supported debt assumed to be issued within the ten-year period.

(7) **Actual and Projected Debt Service as a % of Revenues** is the sum of Annual Payments for Debt Service on Debt Issued and Annual Payments for Debt Service on All Planned Debt Issuances less 9(c) debt service equal to revenue, divided by Revenues. 9(c) Revenues and 9(c) Debt Service are treated as offsetting.

The Debt Capacity Model (continued)

Parameters of the Model

(8) **Net Capacity to Pay Debt Service** is Total Capacity to Pay Debt Service less Annual Payments for Debt Service on Debt Issued and Annual Payments for Debt Service on All Planned Debt Issuances. [Column 8= 4-5-6]

(9) **Amount of Additional Debt that May Be Issued** is the amount of additional tax-supported debt (above and beyond that which is currently authorized but unissued) that may be issued in any given year without exceeding Overall Capacity to Pay Debt Service.

(10) **Debt Service on the Amount of Additional Debt that May Be Issued** is the estimated amount of debt service for the Additional Debt that may be Authorized and Issued.

(11) **Remaining Capacity to Pay Debt Service** is Net Capacity to Pay Debt Service less Debt Service on the Amount of Additional Debt that may be Authorized and Issued. [Column 11=8-10]

(12) **Total Debt Service as a % of Revenues** is the sum of Annual Payments for Debt Service on Debt Issued, Annual Payments for Debt Service on All Planned Debt Issuances and Debt Service on the Amount of Additional Debt that may be Authorized and Issued, divided by Revenues and 9(c) Revenues.

The Debt Capacity Model (continued)

Parameters of the Model

- Model solves for annual capacity, above and beyond authorized amounts assumed issued for the next ten fiscal years at the 5% debt service/revenues level over a ten-year period.

  $945.57 million is equal annual issuance capacity.

  - debt service/revenues ratio rises to a maximum of 4.49% in FY 2012
  - projected issuance never reaches 5% capacity and two years excess capacity is maintained at end of ten-year period

- Two years of excess capacity is a function of conservatism.

Exhibit B

The Debt Capacity Model Sensitivity Analysis

The Debt Capacity Model Sensitivity Analysis

Excess Capacity Sensitivity

- Model solution provides for **two years of excess capacity** remaining at end of the ten-year Model period which results in the following annual debt capacity:

  2 Year Excess Capacity **$945.57 million**

- If the Model solution is altered to reduce the two years of excess capacity to **one year of excess capacity**, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.68% in fiscal year 2015.
  - $1.050 billion of annual debt capacity is available for the ten-year Model period.

- If the Model solution is altered to reduce the two years of excess capacity to **no excess capacity**, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.99% in fiscal years 2015 and 2016.
  - $1.179 billion of annual debt capacity is available for the ten-year Model period.

The Debt Capacity Model Sensitivity Analysis

Revenue Sensitivity

- If the Model solution is altered to increase or decrease General Fund revenues, the following incremental annual debt capacity changes are produced:

For each change of $100 million in each and every year	**$6.81 million**
For each 1% change of revenues in each and every year	**$15.19 million**

Interest Rate Sensitivity

- If the Model solution is altered to change interest rates, the following annual debt capacity figures are produced:

Add 100 basis points to base rate	**$869.18 million**
Subtract 100 basis points from base rate	**$1.032 billion**

Exhibit C

Background Information

Background

Creation of the Debt Capacity Advisory Committee was recommended in *An Assessment of Debt Management in Virginia*, December 1990. The Committee was originally created in September 1991, by Executive Order #38. The Committee was subsequently codified under Chapter 43 of the 1994 Virginia Acts of Assembly, as amended.

The Committee's mandate is to annually review the size and condition of the Commonwealth's tax-supported debt and submit to the Governor and the General Assembly before January 1, an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next biennium (Section 2.2-2714 Code of Virginia). This estimate is advisory and in no way binds the Governor or the General Assembly.

In developing its annual estimate and in preparing its annual report, the Committee shall, at a minimum, consider:

- the amount of tax-supported debt that, during the next fiscal year and annually for the following nine fiscal years, will be outstanding and the amount of tax-supported debt which has been authorized but not yet issued;
- a projected schedule of affordable, state tax-supported debt authorizations for the next biennium;
- projected debt service requirements during the next fiscal year and annually for the following nine fiscal years based on existing outstanding debt, previously authorized but unissued debt, and projected debt authorizations;
- the criteria that recognized bond rating agencies use to judge the quality of Commonwealth bond issues;

Background (Continued)

- any other factor that is relevant to (i) the ability of the Commonwealth to meet its projected debt service requirements for the next two fiscal years; (ii) the ability of the Commonwealth to support additional debt service in the upcoming biennium; (iii) the requirements of the statewide capital plan; and (iv) the interest rate to be borne by, the credit rating on, or any other factor affecting the marketability of such bonds; and
- the effect of authorizations of new tax-supported debt on each of the considerations listed above.

The Committee is also required to annually review the amount and condition of moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability and make recommendations to ensure the prudent use of such obligations.

In addition, the Committee is also required to review the amount and condition of Commonwealth obligations that are not general obligations or moral obligations, and when appropriate, recommend limits on such additional obligations to the Governor and to the General Assembly.

Review of the December 2005 Report

The Committee issued its fifteenth annual report to the Governor and the General Assembly on December 15, 2006. The report addressed the following issues:

- Reaffirmed the use of debt service on tax-supported debt and related long-term obligations as a percentage of revenues as the debt affordability measure used in the Model. In addition, reaffirmed a maximum ratio of debt service as a percentage of revenues of 5%.

- Concluded that the Commonwealth could issue $886.19 million of tax-supported debt in each year from fiscal year 2007 through fiscal year 2015 above and beyond tax-supported debt already outstanding or authorized, while still holding the ratio to tax-supported debt service as a percentage of revenues below 5%.

- Recommended that $886.19 million of tax-supported debt could be prudently authorized by the 2006 and 2007 Sessions of the General Assembly, representing a maximum authorized amount of $1,772.38 million for the biennium.

- Noted that the Model's results are sensitive to changes in revenues. Specifically, that a one percent change in general fund revenues in each and every year of the Model's solution horizon will change annual debt capacity by approximately $13.60 million. A change in general fund revenues of $100 million in each and every year of the Model's solution horizon will produce an incremental debt capacity change of approximately $6.78 million annually.

- Made no recommendation as to which projects, if any, should be chosen for debt financing or how they should be prioritized. Reaffirmed that this decision was most appropriately made through the budgetary and legislative processes.

Review of the December 2005 Report (Continued)

- Continued to recommend that Cabinet Secretaries work with the Secretary of Finance to develop a proposal for rescinding unnecessary authorizations for consideration in the 2006 General Assembly Session.

- Continued to recommend the use of financing processes which promote the lowest possible cost of funds to the Commonwealth by by utilizing traditional financing vehicles such as the Virginia Public Building Authority and the Virginia College Building Authority whenever appropriate.

- Reviewed outstanding moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. The Committee reconfirmed that the Commonwealth is not unique in its use of moral obligation debt, as a number of other state issuers utilize the moral obligation pledge. The Committee continued to review the types of programs, statutory caps, outstanding amounts and other financial data for certain other states that utilize moral obligation bond programs and compared these to Commonwealth issuers. The Committee recommended no changes to existing programs and recommended no change to levels of statutory caps for the three issuers currently utilizing the moral obligation pledge of the Commonwealth.

Commonwealth Debt (per the Comprehensive Annual Financial Report, dollars in thousands)

	As of June 30, 2006	As of June 30, 2005
Tax-Supported Debt		
9(b) General Obligation [1]	626,124	$ 555,447
9(c) General Obligation - Higher Education	325,969	296,963
9(c) General Obligation - Transportation	80,435	90,545
9(c) General Obligation - Parking Facilities	9,939	11,040
Commonwealth Transportation Board	1,021,172	1,041,397
Virginia Public Building Authority	1,292,251	1,142,070
Virginia Port Authority	251,219	265,518
Virginia College Building Authority - 21st Century & Equip	641,954	641,450
Innovative Technology Authority	7,935	8,635
Virginia Biotechnology Research Park Authority	52,452	54,605
Transportation Notes Payable	12,325	12,325
Capital Leases	186,147	180,071
Installment Purchases	188,273	109,661
Regional Jail Reimbursement Agreements	13,375	15,030
Compensated Absences [2]	527,926	501,385
Pension Liability [2]	969,574	860,432
Virginia Public Broadcasting Board	13,485	15,775
Virginia Aviation Board	2,768	3,055
Industrial Development Authority Obligations [3]	23,160	27,100
Economic Development Authority Obligations [4]	100,592	-
Other Liabilities [2]	18,114	18,761
Total Tax Supported Debt	$ 6,365,189	$ 5,851,265
Debt Not Supported By Taxes [2]		
Moral Obligation / Contingent Liability Debt		
Virginia Resources Authority	704,477	$ 695,099
Virginia Housing Development Authority	498,314	623,790
Virginia Public School Authority - 1991 Resolution	-	-
Virginia Public School Authority - 1997 Resolution	2,615,040	2,376,475
Virginia Public School Authority - Equipment Technology Notes	170,385	168,315
Total Moral Obligation/Contingent Liability Debt	$ 3,988,216	$ 3,863,679
Other Debt Not Supported By Taxes		
9(d) Higher Education	840,779	$ 546,062
Virginia College Building Authority - Pooled Bond Program	724,640	622,889
Virginia College Building Authority - Private College Program	385,105	390,620
Virginia Public School Authority - Stand Alone Program	63,932	72,972
Virginia Public School Authority - Equipment Notes	-	-
Virginia Housing Development Authority	4,656,701	4,003,396
Virginia Port Authority	141,118	142,650
Virginia Equine Center	15,320	15,540
Hampton Roads Sanitation District	144,450	138,509
Virginia Biotechnology Research Park Authority	11,880	12,730
Virginia Resources Authority	677,382	591,196
Pocahontas Parkway Association Bonds	-	463,357
Federal Highway Reimbursement Anticipation Notes	918,494	746,877
Notes Payable	908,394	348,191
Other Long-Term Debt	284,353	368,920
Foundations	738,850	644,529
Total Other Debt Not Supported By Taxes	$ 9,603,004	$ 9,108,438

Source: Department of the Treasury and Department of Accounts

[1] Voter approved

[2] **NOT INCLUDED IN DEBT CAPACITY MODEL**

[3] Newport News Industrial Development Authority for Virginia Advanced Shipbuilding & Carrier Integration Center

[4] Fairfax County Economic Development Authority Joint Venture with VDOT for Camp 30 Project

Tax-Supported Debt Issuances in Fiscal Year 2007
As of December 31, 2006

Issuer	Date Issued	Amount
Virginia Public Building Authority, Public Facilities Series 2006A	August 2006	$ 135,000,000
Virginia College Building Authority, Variable Rate Educational Facilities Revenue Bonds (21st Century College Program) Series 2006 B& C	September 2006	$ 120,000,000
Virginia Public Building Authority, Public Facilities Revenue Bonds, Series 2006B	November 2006	$ 215,065,000
Commonwealth of Virginia General Obligation Bonds, Series 2006B	November 2006	$206,635,000

Commonwealth Debt

Outstanding Tax-Supported Debt
As of December 31, 2006*
(Dollars in Thousands)

Tax-Supported Debt Included in the Model (1)		
9(b) General Obligation Bonds		$744,034
Bonds	$744,034	
9(c) Revenue-Supported GOBs		$505,068
Higher Education	$414,694	
Transportation	$80,435	
Parking Facilities	$9,939	
9(d) Obligations		$4,030,098
Transportation Board	$1,021,172	
Virginia Public Building Authority	1,419,181	
Port Authority	236,564	
Virginia College Building Authority Equipment	148,437	
Virginia College Building Authority 21st Century	608,482	
Bonded Capital Leases and Lease Revenue Bonds(2)	240,982	
Virginia Aviation Board	2,625	
Virginia Public Broadcasting Board	12,295	
Regional Jail Reimbursement Agreements	15,030	
Transportation Notes Payable	12,325	
Capital Leases	124,732	
Installment Purchases	188,273	
Total Tax-Supported Debt Included in Model		$5,279,200
Additional Long-Term Obligations Included in the CAFR		
But Not Included in the Model		
Long-Term Obligations Not Included in Model		$1,515,614
Compensated Absences	$527,926	
Pension Liability	969,574	
Other Long-Term Liabilities	18,114	
Total Tax-Supported Debt (CAFR Plus Subsequent Issuance)		$6,794,814

(1) June 30, 2006 Balance Plus Fiscal Year 2007 issuances and principal payments through December 31, 2006.

(2) Bonded Capital Leases include the capital lease obligations supporting lease revenue bonds for Innovative Technology Authority, Virginia Biotechnology Research Park Authority, Big Stone Gap Redevelopment and Housing Authority, Norfolk Redevelopment and Housing Authority, Newport News Industrial Development Authority, the Town of Jarratt, Virginia, and the Fairfax County Economic Development Authority.

**Preliminary and unaudited. Certain balances are* not *net of any unamortized discounts/premiums or deferral on debt defeasance.*

Commonwealth Debt

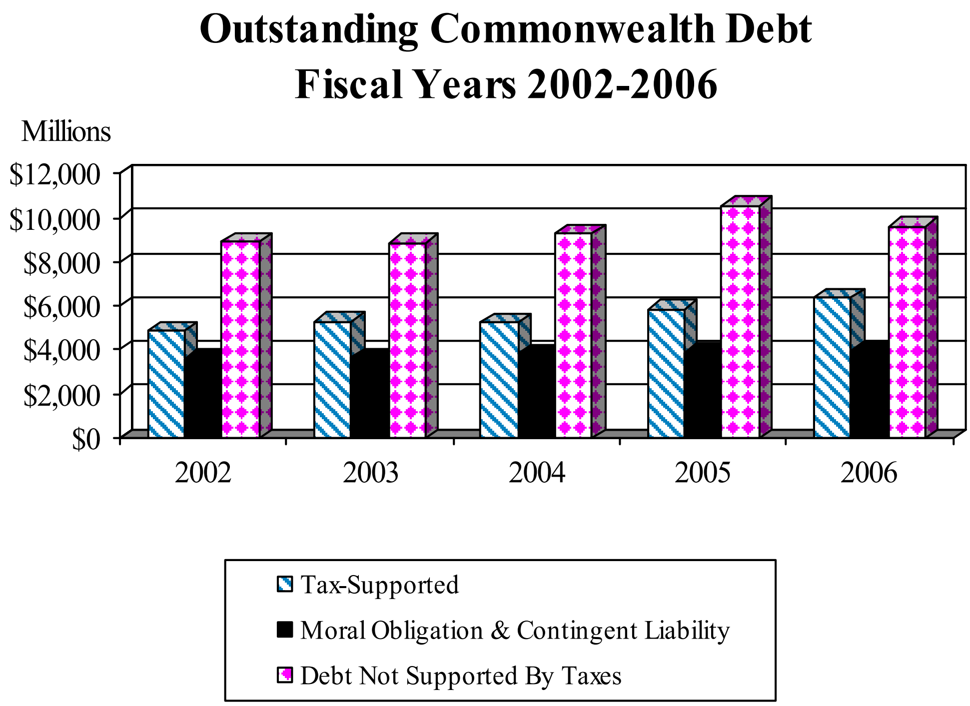
Authorized But Unissued Tax-Supported Debt as of December 31, 2006*

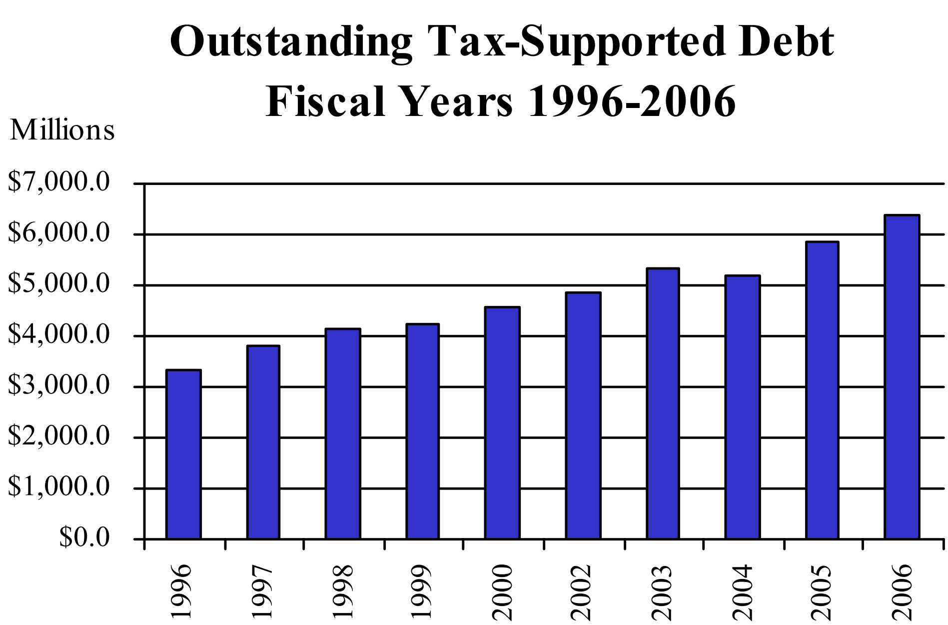
(Dollars in Thousands)

Section 9(b) Debt:		$	547,327
Section 9(c) Debt:			
Higher Education Institutions Bonds		$	322,915
Section (9d) Debt:			
Transportation Revenue Bonds (Northern Virginia Transportation District Program)	97,100		
Virginia Public Building Authority - Projects and	473,785		
Virginia Public Building Authority - Jails & Juvenile Detention Facilities			
Virginia College Building Authority - 21st Century Equipment	136,902		
Virginia College Building Authority - 21st Century Projects	121,164		
Capital Lease Financings	34,200		
Subtotal 9(d) Debt:		$	863,151
Total		$	1,733,393

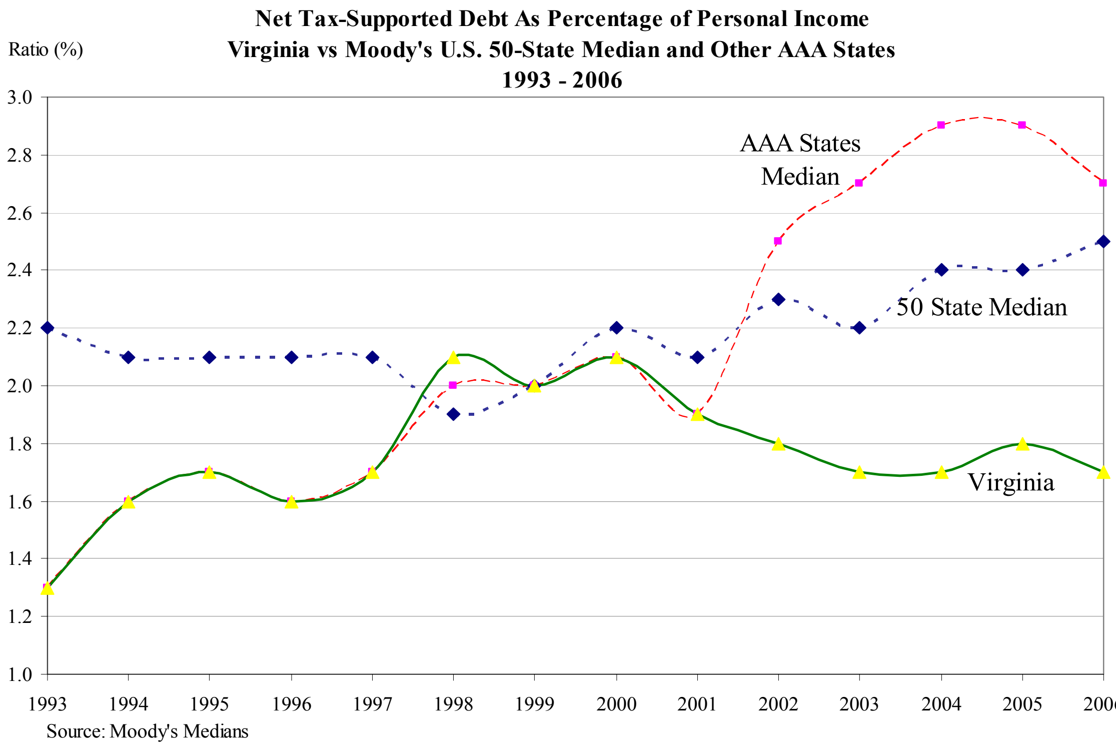
*Preliminary and unaudited

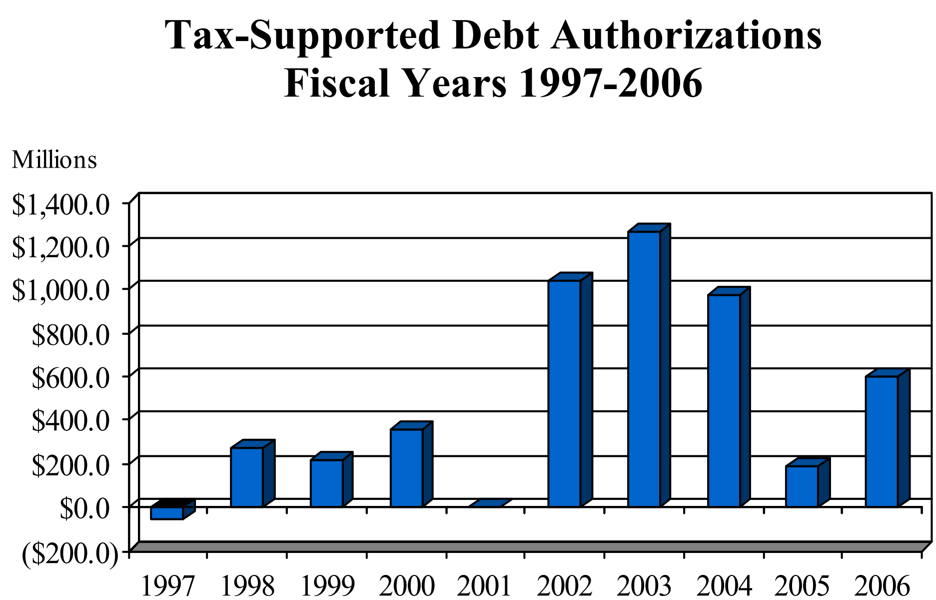
Commonwealth Debt





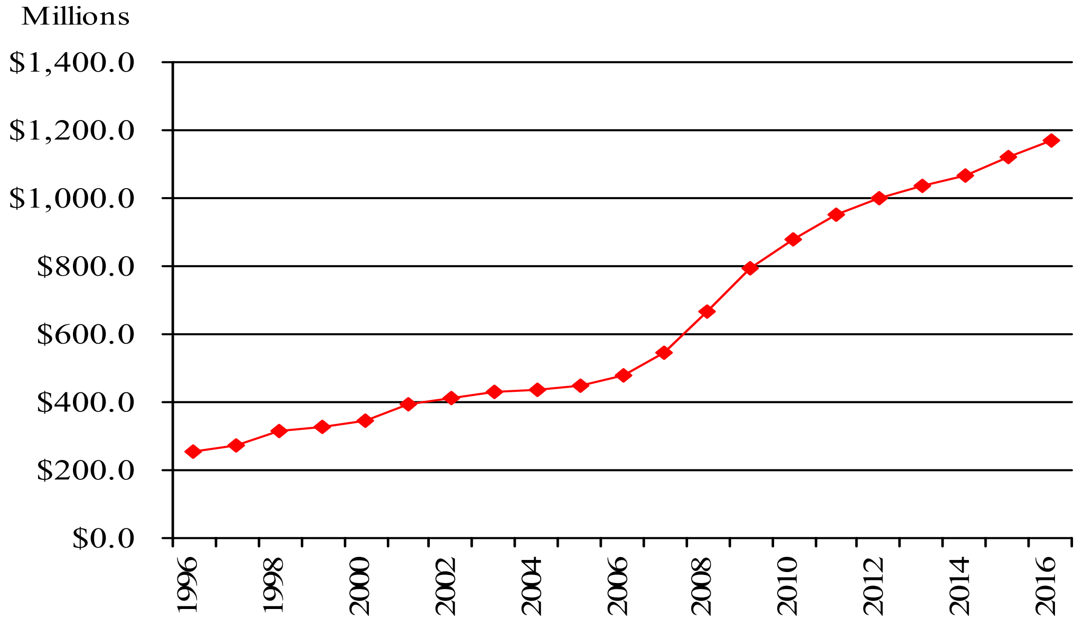
Commonwealth Debt





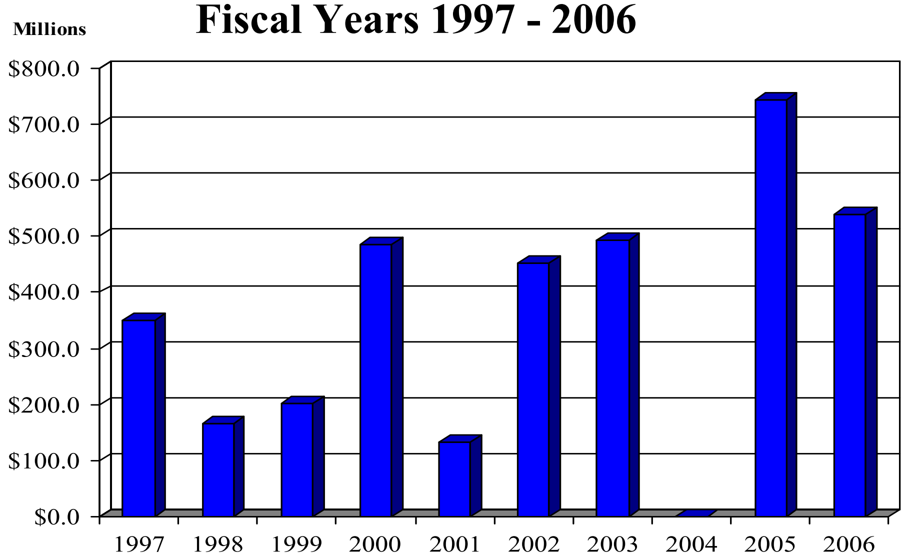
Commonwealth Debt

Tax-Supported Debt Service: Actual and Projected
Fiscal Years 1996 – 2016*



* Assumes debt is authorized and issued in future periods in accordance with the Model's maximum recommended annual amounts. Past data includes lease revenue bonds issued by the Virginia Biotech Research Park Authority, Innovative Technology Authority, Newport News Industrial Development Authority (VACSIC) and Fairfax County Economic Development Authority (Camp 30). Does not include other capital leases, installment purchase obligations or regional jail reimbursement payments.

Trend in Tax-Supported Debt Issuance
Fiscal Years 1997 - 2006



AAA/Aaa/AAA State Debt Burdens
1999 – 2006

AAA/Aaa/AAA STATE DEBT BURDENS FROM 1999-2006
PROVIDED BY MOODY'S INVESTORS SERVICE

Net Tax-Supported Debt per Capita (1)

	2006	2005	2004	2003	2002	2001	2000	1999
Delaware	1845	1,865	1,800	1,599	1,650	1,616	1,544	-
Maryland	1169	1,064	1,077	977	879	819	895	953
Georgia	784	803	827	802	804	679	697	679
Utah	707	792	846	682	708	634	693	705
VIRGINIA	**601**	**589**	**546**	**546**	**566**	**537**	**570**	**516**
Missouri	496	449	461	368	347	288	245	233
North Carolina	-	-	-	-	375	340	343	273
Minnesota	-	-	-	-	576	546	513	525
South Carolina	-	-	599	587	615	398	347	321
AAA Median	745	798	827	682	615	546	570	521
AAA Average	868	927	879	794	724	651	650	526

(1) Population is based on Census data from one year prior to each respective year's debt analyzed.

Net Tax-Supported Debt as Percent of Personal Income (2)

	2006	2005	2004	2003	2002	2001	2000	1999
Delaware	5.3	5.5	5.6	4.9	5.3	5.5	5.2	-
Maryland	3.0	2.9	3.0	2.7	2.6	2.6	3.0	3.3
Utah	2.7	3.2	3.5	2.8	3.0	2.8	3.3	3.6
Georgia	2.7	2.8	2.9	2.8	2.9	2.6	2.8	2.9
VIRGINIA	**1.7**	**1.8**	**1.7**	**1.7**	**1.8**	**1.9**	**2.1**	**2.0**
Missouri	1.6	1.5	1.6	1.3	1.3	1.1	1.0	1.0
North Carolina	-	-	-	-	1.4	1.4	1.4	1.2
South Carolina	-	-	2.4	2.3	2.5	1.8	1.6	1.6
Minnesota	-	-	-	-	1.8	1.8	1.9	2.0
AAA Median	2.7	2.9	2.9	2.7	2.5	1.9	2.1	2.0
AAA Average	2.7	3.0	3.0	2.6	2.5	2.4	2.5	2.2

(2) Personal income is based on Census data from two years prior to each respective year's debt analyzed.

Exhibit D

Moral Obligation Debt
And
Contingent Liability Debt

Moral Obligation Debt

- Definition of Moral Obligation Debt:

  Moral obligation debt refers to a bond issue structure originally created in the 1960s and utilized primarily by state housing finance agencies or state-administered municipal bond banks as additional credit enhancement for revenue bond issues. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body "may", but is not legally required to, replenish the reserve fund.

- Rating agencies do not include in tax-supported debt ratios as long as bonds are self-supporting.

- Commonwealth Moral Obligation Debt Issuers:

  –Virginia Resources Authority

  –Virginia Housing Development Authority

  Multi-Family Housing Bonds

Moral Obligation Debt

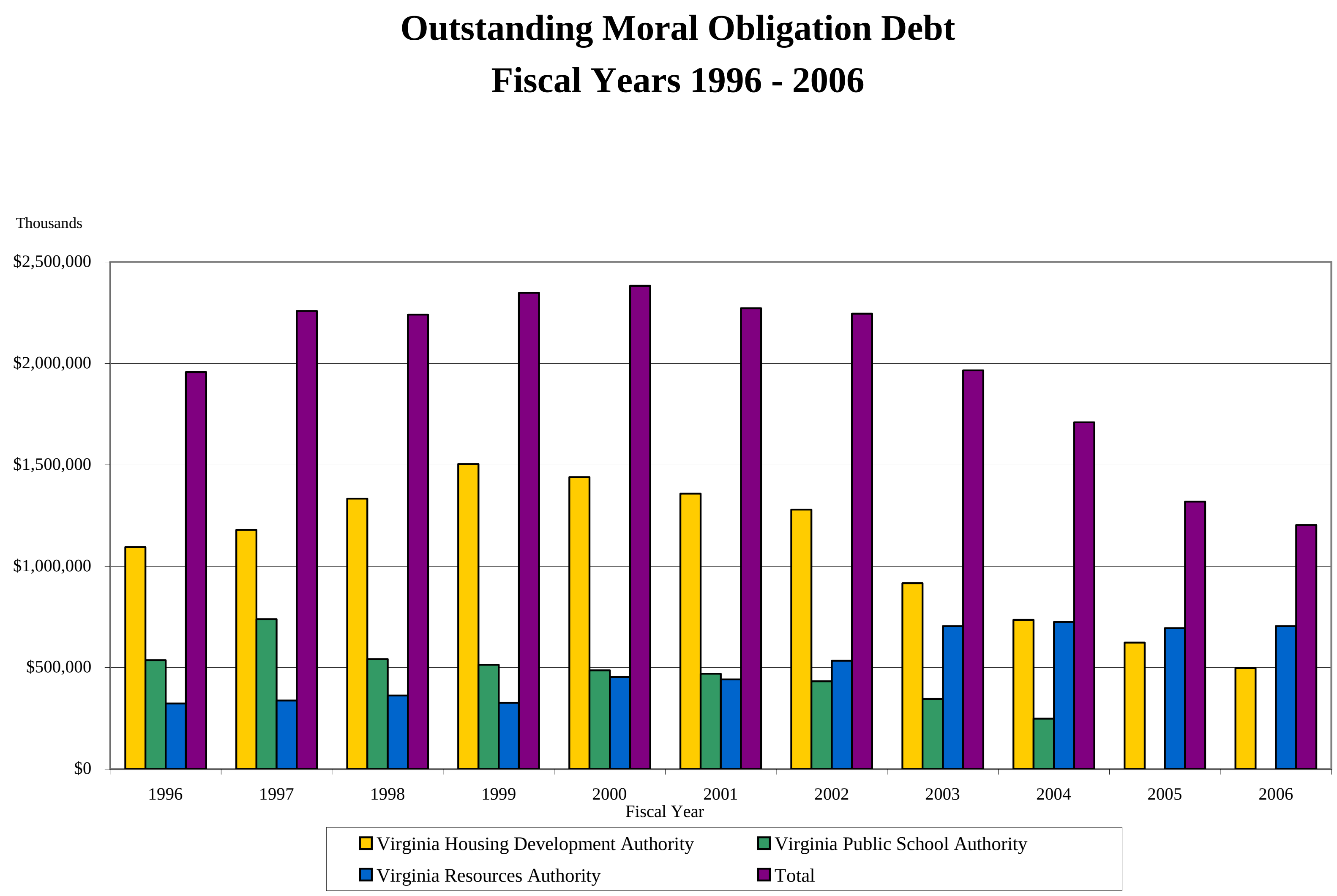
Issuer	Statutory Limit	Outstanding At June 30, 2006	Available Authorization
Virginia Resources Authority	$ 900,000	$ 704,477	$ 195,523
Virginia Housing Development Authority	1,500,000	498,314	1,001,686
Total	$2,400,000	$1,202,791	$1,197,209

Dates upon which issuers expect to meet or exceed statutory borrowing cap:

VHDA:	N/A	- Alternative financing programs initiated in fiscal year 1999 do not require use of moral obligation. Does not expect to issue additional moral obligation debt.
VRA:	FY 2007	- Cap raised from $550 million to $900 million in 2001. Cap is not expected to be exceeded during the next biennium.

Bond Ratings:	Fitch	Moody's	S&P
VHDA (Multi-Family):	N/R	Aa1	AA+
VRA:	N/R	Aa2	AA

Moral Obligation Debt



Contingent or Limited Liability Debt

- The only non-tax-supported debt obligations for which the Commonwealth has a contingent or limited liability are those which utilize a “sum sufficient appropriation” (SSA) to pay debt service.

- SSA was previously only used on certain revenue bonds issued by the Virginia Public School Authority under its 1997 Resolution. The Virginia Public School Authority had $2,615,040,000 of 1997 Resolution bonds outstanding as of June 30, 2006.

- The 2000 Appropriation Act (Chapter 1073) authorized the use of SSA for certain revenue notes issued by the Virginia Public School Authority under its Educational Technology Program. The SSA was codified during the 2001 General Assembly session. The Virginia Public School Authority issued its first series of notes enhanced by the SSA in the Spring of 2001. Notes outstanding as of June 30, 2006 equal $170,385,000.

Bond Ratings:	Fitch	Moody’s	S&P
VPSA (1997 Resolution):	AA+	Aa1	AA+
VPSA (Equipment Technology Notes):	AA+	Aa1	AA+

Moral Obligation Debt

Excess Capacity Sensitivity

- The current Model solution provides for two years of excess capacity remaining at end of the 10-year Model period (excluding moral obligation debt) which results in annual debt capacity of $945.57 million.

Total Moral Obligation Debt Sensitivity

- If the Model solution is altered to assume conversion of the entire $2.4 billion statutory cap for all moral obligation debt to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.97% in fiscal 2011 year.
  - $705.57 million of annual debt capacity is available for the ten-year model period.

VHDA Sensitivity

- If the Model solution is altered to assume conversion of the VHDA's total outstanding moral obligation debt (as of 6/30/06) to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.97% in fiscal year 2012.
  - Annual debt issuance capacity of $895.74 million is available for the ten-year Model period.

Moral Obligation Debt

VRA Sensitivity

- If the Model solution is altered to assume conversion of the VRA's total statutory moral obligation cap of $900 million to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.64% in fiscal year 2012.
  - $855.57 million of annual debt issuance capacity is available is available for the ten-year Model period.

Sum Sufficient Appropriation Sensitivity

VPSA Sensitivity

- If the Model solution is altered to assume conversion of the VPSA's total outstanding debt secured by a sum sufficient appropriation (as of 6/30/06) to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.99% in fiscal years 2010 and 2011.
  - Annual capacity of $622.56 million is available through fiscal year 2011. In fiscal years 2012 through 2016 capacity rises to $713.52 million per year.

Exhibit 2

State General Obligation Bond Ratings

October 4, 2006

General Obligation Bond Ratings with Outlook - October 4, 2006

	S & P		Moody's		Fitch	
State	**Rating**	**Outlook**	**Rating**	**Outlook**	**Rating**	**Outlook**
Alabama	AA	Stable	Aa2	Stable	AA	Stable
Alaska	AA	Stable	Aa2	Stable	AA	Stable
Arizona*	--	--	Aa3	Stable	--	--
Arkansas	AA	Stable	Aa2	Stable	--	
California [3]	A+	Stable	A1	Stable	A+	Stable
Colorado	--	--	--	--	--	--
Connecticut	AA	Stable	Aa3	Stable	AA	Stable
Delaware	AAA	Stable	Aaa	Stable	AAA	Stable
Florida	AAA	Stable	Aa1	Stable	AA+	Stable
Georgia	AAA	Stable	Aaa	Stable	AAA	Stable
Hawaii [1]	AA-	Stable	Aa2	Stable	AA	Stable
Idaho	--	--	Aa2	Stable	--	--
Illinois	AA	Stable	Aa3	Stable	AA	Negative
Indiana	AA+	Stable	Aa1	Stable	--	--
Iowa *	AA+	Stable	Aa1	Stable	AA	Stable
Kansas [6] *	AA+	Stable	Aa1	Stable	--	--
Kentucky	AA-	Stable	Aa2	Negative	--	--
Louisiana [2]	A	Stable	A2	Stable	A	Stable
Maine	AA-	Stable	Aa3	Stable	AA	Stable
Maryland	AAA	Stable	Aaa	Stable	AAA	Stable
Massachusetts	AA	Stable	Aa2	Stable	AA	Stable
Michigan [4]	AA	Negative	Aa2	Stable	AA	Negative
Minnesota	AAA	Stable	Aa1	Stable	AAA	Stable
Mississippi	AA	Stable	Aa3	Stable	AA	Stable
Missouri	AAA	Stable	Aaa	Stable	AAA	Stable
Montana	AA-	Stable	Aa3	Positive	AA-	Stable
Nebraska	--	--	--	--	--	--
Nevada [5]	AA+	Stable	Aa1	Stable	AA+	Stable
New Hampshire	AA	Stable	Aa2	Stable	AA	Stable
New Jersey	AA	Stable	Aa3	Stable	AA-	Stable
New Mexico	AA+	Stable	Aa1	Stable	--	--
New York	AA	Stable	Aa3	Stable	AA-	Stable
North Carolina	AAA	Stable	Aa1	Positive	AAA	Stable
North Dakota *	AA	Stable	Aa2	Stable	--	--
Ohio	AA+	Stable	Aa1	Stable	AA+	Stable
Oklahoma	AA	Stable	Aa3	Stable	AA	Stable
Oregon	AA-	Stable	Aa3	Stable	AA-	Stable
Pennsylvania	AA	Stable	Aa2	Stable	AA	Stable
Rhode Island	--	--	Aa3	Stable	--	--
South Carolina	AA+	Stable	Aaa	Negative	AAA	Stable
South Dakota	--	--	--	--	--	--
Tennessee [7]	AA+	Stable	Aa2	Stable	AA+	Stable
Texas	AA	Stable	Aa1	Stable	AA+	Stable
Utah	AAA	Stable	Aaa	Stable	AAA	Stable
Vermont	AA+	Stable	Aa1	Positive	AA+	Stable
Virginia	AAA	Stable	Aaa	Stable	AAA	Stable
Washington	AA	Stable	Aa1	Stable	AA	Stable
West Virginia	AA-	Stable	Aa3	Stable	AA-	Stable
Wisconsin	AA-	Positive	Aa3	Stable	AA-	Stable
Wyoming *	AA	Stable	--	--	--	--

[1] **Hawaii: Upgraded to AA from AA- by Fitch on February 16, 2006.**
Outlook moved down to Stable from Positive by S&P on March 20, 2006.

[2] **Louisiana: Removed from Fitch Negative Watch on April 13, 2006. Assigned Negative outlook by Fitch on April 13, 2006.**
Outlook moved to Stable by Moody's on June 23, 2006.
Outlook moved to Stable by Fitch on August 10, 2006.
Outlook moved to Stable from Negative by S&P on August 24, 2006.

[3] **California: Upgraded to A1 (Stable) from A2 (Positive) by Moody's on May 26, 2006.**
Upgraded to A+ (Stable) by Fitch on June 9, 2006.
Upgraded to A+ (Stable) by S&P on May 17, 2006.

[4] **Michigan: Outlook lowered to Negative from Stable by S&P on August 9, 2006.**

[5] **Nevada: Upgraded to AA+ (Stable) by S&P on June 23, 2006.**

[6] **Kansas: Outlook raised to Stable from Negative by Moody's on October 3, 2006.**

[7] **Tennessee: Upgraded to AA+ from AA by S&P on October 12, 2006.**

* No outstanding GO debt; requested/Issuer/Implied rating

STANDARD & POOR'S RATINGSDIRECT

RESEARCH

Virginia; General Obligation

Publication date: 30-Oct-2006
Primary Credit Analyst: Karl Jacob, New York (1) 212-438-2111; karl_jacob@standardandpoors.com
Secondary Credit Analyst: Harold Burger, New York (1) 212-438-7983; harold_burger@standardandpoors.com

Credit Profile

US$203.6 mil GO bnds ser 2006B due 06/01/2031 Sale date: 01-NOV-2006	AAA
AFFIRMED	
$953.000 mil. Virginia	AAA
OUTLOOK:	STABLE

Rationale

The 'AAA' rating on Virginia's new GO bonds series 2006B and GO debt reflects the commonwealth's:

- Strong and broad-based economy that continues to grow at a faster pace than the national average,
- Strong financial operations demonstrated by good reserves and a fully funded budget reserve fund,
- Long history of proactive and conservative financial management, and
- Manageable debt burden.

Virginia's economy is expected to grow at a healthy clip over the long term, and continues to outperform the U.S. in terms of job and income growth. Virginia's economy added 76,000 jobs in 2005 with actual employment growth of 2.1%, up from 1.8% in 2004. According to Global Insight, defense and other federal spending remains a growth stimulant, although expanding at a slower pace. Given its concentration of military jobs, the commonwealth was at great risk during the latest round of the Base Realignment and Closure (BRAC) commission recommendations: More than 100,000 jobs will be moved in, out, or between installations in Virginia. Nevertheless, the commonwealth's favorable business climate, low cost of doing business, right to work laws, and highly skilled labor force should ensure solid long-term future growth.

Reserve levels have fully recovered from the recession that affected revenues in fiscals 2001-2003. Like many other states, Virginia relied on the use of onetime revenues, reserves built up during the late 1990s, and expenditure reductions to balance operations. The use of reserves led to a reduction in the unreserved general fund balance (GAAP basis) to a low of negative $749 million in fiscal 2002 before improving to positive $520 million as of June 30, 2005. The revenue stabilization fund declined to a low of $247 million in fiscal 2003 before rebounding strongly to its current level of $1.085 billion, a result of three consecutive years of surpluses through fiscal 2006. Improvement in financial position was a result of a growing economy, a half-cent increase in the sales tax, and conservative budgeting.

Virginia's debt burden remains very manageable with $5.6 billion of tax-backed debt. In addition, debt ratios are easily manageable at $773 per capita, or 2.0% of personal income; on a debt per capita basis, Virginia ranks 22nd in the nation. On a debt to personal income basis, it ranks 28th. In fiscal 2002, the commonwealth Legislature authorized roughly $1 billion of GO debt. A total of $672 million has yet to be issued. Of this $672 million of authorized but unissued debt remaining, nearly 90%, or $607 million, is dedicated to higher education, with the remainder for parks and recreation.

Virginia's management practices are considered strong under Standard & Poor's Financial Management Assessment (FMA). An FMA of strong indicates that practices are strong, well embedded, and likely sustainable. Much of the state's debt and financial management practices are embedded in state statute.

The commonwealth has completed preliminary estimates in determining its liability under GASB 45 for other postemployment benefits (OPEB) as of July 2005. Based on preliminary results, the total actuarial liability is estimated at $2 billion, of which two-thirds is health care related. A funding policy is in the development stage.

Outlook

The stable outlook reflects Standard & Poor's expectations of Virginia's continued conservative financial management and the maintenance of a strong financial position. Likewise, Standard & Poor's expects that the commonwealth will demonstrate the ability to weather economic slowdowns and their resulting effects on revenues. The continued strength of the commonwealth's economy and long-term growth trends are expected to offset near-term slowing caused by weakness in manufacturing.

Economy: Growth Continues To Outpace The Nation

Virginia's population of roughly 7.56 million ranks it 12th in the U.S. The commonwealth's population grew 12.1% between 1996-2005, slightly stronger then the national average of 10.0%. The growth is attributable to a favorable business climate, including low costs, right to work laws, a skilled work force, and an extensive transportation network. Income levels are above average with median household effective buying income and per capita personal income both about 110% of national levels. The commonwealth's wealth is evident in a U.S. Census Bureau report that ranks five of Virginia's counties in the top 20 in the nation in terms of highest median income. For the commonwealth as a whole, its 2005 personal income of $38,817 ranked it 10th in the U.S. Virginia's personal income jumped 7.3% in 2005, and although moderating, is still expected to grow 5.4% in 2006, besting the U.S. average. The commonwealth's housing market, which peaked in 2004, is experiencing the same slowdown evident nationally. Northern Virginia's residential housing market, which boomed through most of the 1990s into 2004, has cooled off considerably. Housing prices have slightly declined in many instances, and are expected to remain soft for the foreseeable future. Virginia has a diverse economy and depends on a sizable military presence as an important job provider and stabilizing factor for its economy.

The largest metropolitan area in the commonwealth is the northern Virginia portion of the Washington-Arlington-Alexandria MSA, which has served as the economic engine that has been propelling strong growth. This fast-growing area has long been characterized by a large number of civilian and military federal government jobs. This area also contains one of the nation's leading high-tech centers for computer software and telecommunications. The region boasts the fifth-highest concentration of high-tech jobs in the U.S., home to such companies as America Online, IBM, and Motorola. Since 1980, northern Virginia grew at three times the rate of the rest of the commonwealth. Hampton Roads, which includes the Virginia Beach-Norfolk-Newport News MSA, is the commonwealth's second-largest MSA and contains a large military presence and port facilities. The Richmond MSA is the third largest. Richmond's employment is focused in manufacturing, business services, and government employment. The Charlottesville MSA is anchored by higher education and services. Virginia's largest nonagricultural employment by sector included professional and business activities (16.5% of employment), retail trade (11.4%), education and health (10.7%), local government (9.8%), and leisure and hospitality (9.0%).

Given the heavy concentration of military installations and its proximity to Washington, D.C., the federal/military sector plays an important role in Virginia's economy. In 2005, federal government employment in the commonwealth accounted for approximately 151,700 jobs and 4.1% of total employment. With this concentration, Virginia was at a comparatively higher risk of losing jobs during the September 2005 round of BRAC announcements: More than 100,000 jobs will be moved in, out, or between installations in Virginia. The most significant actions included:

- The closure of Fort Monroe in Hampton for a loss of 3,300 direct jobs,
- A net loss of about 20,000 direct jobs in leased space in Arlington and Alexandria,
- A net gain of nearly 11,000 direct jobs at Fort Belvoir, including a new Army hospital,
- A net gain of roughly more than 7,000 direct jobs at Fort Lee in central Virginia,

- A net gain of more than 1,000 direct jobs at Fort Eustis and Langley Air Force Base on the Peninsula,
- A net gain of 1,800 direct jobs at the Marine Corps Base at Quantico Virginia, and
- A net gain of a considerable number of highly classified jobs.

Moreover, one BRAC commission action key for Virginia was the retaining of four defense-related research activities in northern Virginia: the Office of Naval Research, Office of Scientific Research, Army Research Office, and Defense Research Project Agency.

One area of uncertainty remains the status of the East Coast Master Jet Base at Naval Air Station Oceana in Virginia Beach. A May 2006 finding released by the Department of Defense found that the commonwealth and the cities of Chesapeake and Virginia Beach failed to fully satisfy requirements to maintain the base in Virginia. As a result, the state of Florida and the city of Jacksonville now have the opportunity to meet the Department of Defense requirements by Dec. 31, 2006; if successful, this would result in the relocation of the base operations and 20,000 jobs to Jacksonville.

The recent announcement by Ford Motor Co. that it will be closing its manufacturing plant in Norfolk in 2007 will have a definite impact on the regional economy, with the loss of about 2,355 jobs.

A testament to the strength of Virginia's economy is evident in employment trends, which continue to grow and, unlike many other states, never lost employment during the recent national recession. The commonwealth's 36-month unemployment rate of 3.6% is well below the national rate of 5.1%. Historically, Virginia's unemployment rate has ranged from 1.5%-2.0% below the national average. According to Global Insight, Virginia's economy, while moderating, remains vibrant. While overall economic activity has been slowing nationally, the commonwealth is still expected to grow at a more moderate 1.7%, slightly above the projected 1.5% U.S. average. Employment growth was led by construction employment, education, and health services. The seasonally adjusted unemployment rate was estimated at 3.2% in August 2006, and compares favorably with the 4.8% U.S. average.

Finances: Reserves Have Bounced Back Strongly

Following a difficult period in the earlier part of the decade when Virginia's financial position was strained partly as a result of the national economic slowdown, reserve levels have now exhibited a strong trend of revenue growth. Three consecutive years of general fund surpluses--a product of a strong economy, conservative budgeting, and a half-cent sales tax increase--have resulted in the revenue stabilization reserve fund quadrupling: from $247 million at the end of fiscal 2003 to $1.085 billion in fiscal 2006. The revenue stabilization fund is now at its highest level ever, and is funded at its constitutional ceiling.

Approximately 96% of general fund revenues in fiscal 2006 were derived from five major taxes imposed by the commonwealth: individual and fiduciary income taxes (accounting for 62.5%); sales and use taxes (20.3%); corporate income taxes (5.9%); taxes on deeds, contracts, wills, and suits (4.7%); and taxes on premiums of insurance companies (2.5%). These revenues support a number of government functions--primarily education (47.2% of fiscal 2006 expenditures), individual and family services (25.5%), public safety (15.5%), and general government (including debt service, 9.2%).

Fiscal 2006

On a budgetary basis (cash), unaudited fiscal 2006 figures indicate a third consecutive strong year for the commonwealth. The general balance rose by $1 billion, or 55%, over the prior year. The total fund balance now stands at a strong $2.89 billion, or 20.2% of general fund expenditures, while the unreserved portion stands at $1.8 billion, or 12.6% of general fund expenditures. This is in marked contrast to fiscal 2002, when the total fund balance was only one-fifth its current level. Overall tax revenues increased by 9.8% over the prior year, led by strong growth in corporate income taxes (up 41.3%), individual income taxes (11.5%), and other taxes (17.0%). The only major revenue category that underperformed was sales and use taxes, which declined 2.1% from the prior year. The decline in sales tax revenues is not isolated to Virginia--this occurred in many states in fiscal 2006. On the spending side, general fund expenditures increased 7.1% over fiscal 2005, a much slower growth rate than the prior year (fiscal 2005) when expenditures grew at a much faster rate (14.1%). General fund expenditure growth is being driven by individual and family services, which increased 9.1% over the prior year, and education, which also grew

9.1%.

During fiscal 2006, the commonwealth designated $584 million from the general fund to the revenue stabilization fund. This includes the required fiscal 2006 deposit of $181.9 million and the $402.2 million required fiscal 2007 deposit (made in advance). The revenue stabilization fund contained in the reserved portion of the fund balance ($1.1 billion) is currently at its maximum constitutional funding limit.

Fiscal 2006's positive results follow two strong years (fiscals 2004 and 2005) of surplus operations. In fiscal 2005, the commonwealth registered a general fund budgetary basis surplus of $755.8 million, increasing the unreserved fund balance by $449.5 million. Combined unreserved and revenue stabilization reserves stood at a strong 9.1% of general fund expenditures in fiscal 2005. In fiscal 2004, general fund and other sources exceeded expenditures and other uses by $554.8 million, increasing the unreserved general fund balance by $435.5 million on a budgetary basis.

Fiscal 2006-2008 biennium budget
Virginia's fiscal 2006-2008 biennium budget is balanced with a focus on maintaining long-term fiscal stability and meeting the basic commitments of education, health care, transportation, and the environment. The budget also includes targeted investments to build a more competitive economy. Since the revenue stabilization fund has reached its constitutional prescribed maximum, more spending will be devoted to capital projects.

Fiscal 2007 year to date
General fund revenues grew 6.3% from September 2005 to September 2006. Adjusting for an unusually large corporate payment due to a onetime capital gain, growth was 4.0%. Weakening growth in payroll withholding and sales taxes, coupled with steep declines in collections of recordation taxes, reflects the slowdown in economic growth. On a year-to-date basis, total revenue has grown 7.6%, ahead of the annual forecast of 4.2%. Adjusting total revenue for the effects of repealing the accelerated sales tax program, growth is 3.0% through the first quarter of the fiscal year--in line with the adjusted annual estimate of 3.1%.

Financial Management Assessment: Strong

Virginia's management practices are considered strong under Standard & Poor's FMA. A FMA of strong indicates that practices are strong, well embedded, and likely sustainable. Much of the commonwealth's debt and financial management practices are embedded in the constitution and state statute.

State statutes and internally developed policies guide long-term financial planning, capital planning, debt management, and investing. In addition to its internal resources, Virginia's revenue estimates for budget forecasting have been based on outside data sources and economic forecasting firms. The revenue forecast is based on both national and in-state activity. State statutes require annual revenue forecasts, and the commonwealth tracks revenues and expenditures measured against the budget, which is submitted to the governor. The office of the secretary of finance generates monthly reports projecting year-end surpluses/deficits. The commonwealth's long-term financial planning is centered on its biennium budget process, during which the governor is required to produce a six-year forecast and submit it to the legislature at the beginning of every legislative session. The revenue forecast in the financial plan is updated semiannually, and the expenditure forecast portion is updated annually.

A six-year capital improvement plan (CIP) is also produced and updated annually. The governor is required by legislation to submit the CIP to the legislature on Nov. 1 of each odd year. The department of planning and budget prioritizes projects and recommends how they be financed, while also measuring the fiscal impact of capital spending on future budgets. Investment of commonwealth funds is also prescribed by state statutes. The treasury staff monitors investments, and reports are generated monthly.

Commonwealth statutes limit the amount of debt to 1.15x the average income and sales tax receipts for the prior three years. While the power to authorize debt lies with the governor and legislature, ultimately the department of planning and budget controls capital expenditures through the appropriation allotment process.

Although the commonwealth has developed swap-management and derivative guidelines, neither Virginia nor its related authorities have entered into derivative agreements.

Virginia maintains a revenue stabilization fund that is established in the constitution. The constitutional provisions prescribe annual funding based on a formula tied to revenue performance, which must be transferred annually into the fund. The constitution provisions also prescribe under what circumstances the fund can be drawn on.

Debt: Low And Manageable

Virginia's direct GO and tax-supported debt burden is low at $773 per capita and about 2% of personal income. Debt amortization is average with about half of tax-supported debt maturing in 10 years. Tax-supported debt totals $5.6 billion. All debt issued by the commonwealth is subject to a limit not to exceed 5% of revenues. GO debt issuance for capital projects must be authorized by a majority of the members elected to each house of the General Assembly and approved by voters in a statewide election.

The department of planning and budget prepares the commonwealth's six-year capital outlay plan. The plan assesses the commonwealth's ability to meet its highest priority needs and outlines an approach to address priorities in terms of costs, benefits, and financing methods. The 2002 General Assembly set out new requirements for funding of capital projects at a level not less than 2% of general fund revenues for the biennium, along with the portion of that amount that may be recommended for bonded indebtedness. Agencies are required to submit capital plans to the governor and legislature on an annual basis.

The debt capacity advisory committee determines the amount of debt the commonwealth can prudently authorize each year. The downward revenue estimates reduced the amount of debt capacity, but not significantly. The commonwealth has replaced some debt that was funded through appropriations with debt issuance. While the commonwealth has formulated guidelines for debt derivatives, to date no swaps have been executed.

Pensions And OPEBs

Virginia's largest pension system, representing 313,025 teachers and commonwealth employees, is 90.3% funded as of June 30, 2004. Funding levels have fallen from a high of 107.3% in fiscal 2001. The funding ratios of the three smaller pension plans, representing a much smaller group of 12,000 state police, judicial, and Virginia law officers, are not as strong, at 77.8%, 54.9%, and 78.0%, respectively. The commonwealth has completed preliminary estimates in determining its OPEB liability under GASB 45 as of July 2005. Based on preliminary results, the total actuarial liability for the five OPEB programs is estimated at $2 billion as of July 1, 2005. A funding policy is in the development stage.

Exhibit 3

A Review of Debt At State Supported

Institutions of Higher Education

November 21, 2006

Exhibits may be obtained from the Department of the Treasury.

DRAFT
A REVIEW OF DEBT AT STATE SUPPORTED INSTITUTIONS OF HIGHER EDUCATION

NOVEMBER 21, 2006

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Virginia's institutions of higher education have developed unique and independent financial operating models. These institutions also have a widely varying level of fiscal sophistication and financial management. As we have reviewed the debt capacity of various institutions, it is clear that one model, even general in nature, would not provide an effective tool for either the Commonwealth or the individual institutions.

We believe that all institutions should develop and have a debt capacity model to guide their issuance of debt. These models should equally consider both the debt service cost associated with the debt, but more importantly, the effect that debt service can have on mandatory fees and other costs to the students. Historically, Virginia's approach to reviewing debt issuance in many cases only focuses on the project's ability to generate sufficient revenue to pay debt service on the bonds or whether debt service costs will remain below a certain percentage of expenses. These approaches both fail to consider the cost to the student if the project becomes part of the comprehensive cost of attendance or tuition and fees.

The Commonwealth needs to evaluate these various debt capacity models to determine the extent institutions are affecting the Commonwealth's debt capacity and bond rating. Although, the institutions have received exemptions from certain state regulations or laws, their actions continue to have a direct effect on the Commonwealth. The financial market analysts do not separate the actions of the institutions of higher education from the Commonwealth's overall financial status and bond rating. The use of joint ventures with other organizations also will have an impact on the Commonwealth in the financial markets, if they believe that the Commonwealth will assume a guarantor role in these arrangements.

Recommendations

1. Each institution should develop and use a debt capacity model approved by the institution's Board of Visitors and compliant with the guidelines of the Secretary of Finance and the State Council of Higher Education.

2. The debt capacity model should include a component, which considers the effect of debt service on the cost of attendance.

3. The General Assembly may wish to have the Debt Capacity Advisory Committee review the institutions' debt capacity models and periodically report on how the institutions are using them and their results.

-T A B L E O F C O N T E N T S-

Introduction

The financial operations of Virginia's institutions of higher education have always been a shared operation between the Commonwealth and the Board Visitors of each institution of higher education. The extent of the Commonwealth's participation has varied over the years and taken different forms of support. Historically, the Commonwealth's two primary means of support have been direct appropriations and issuance of debt for capital projects and infrastructure. Additionally, the institutions have used the Commonwealth's financial status and bond rating to secure other direct financing.

The Board of Visitors, with the institution's management, have had the responsibility of determining the institution's level of service and deciding on how to fund the difference between the state support and the funds necessary to meet the Board's level of service. Institutions have historically funded this difference with tuition and mandatory fees.

Institutions have also sought to have alumni and others donate or contribute resources to the institutions and have developed sizable endowment funds. Other institutions have also sought research and other academic grants to fund the institution. For the majority of Virginia's institutions, tuition and mandatory fees and the Commonwealth's direct and indirect contribution to operations continues as the primary source of the institution's revenues.

The Commonwealth has allowed its institutions to develop and adapt to their perceived market as separate entities. This degree of independence has resulted in 14 institutions of higher education with varying financial resources and expertise, market share, programs, and abilities to grow and adapt. All of these factors affect the long-term financial health and capacity of the institution to grow and address its needs.

All of these factors affect an institution's ability to use the financial market to meet capital and infrastructure needs. These fiscal constraints also affect the institution's ability to operate and maintain these assets.

Financing Higher Education in Virginia

As discussed in the introduction, financing higher education in Virginia has always been a joint activity of the Commonwealth through appropriation and individual institution's Board of Visitors in deciding how to meet the financing needs. The Board of Visitors and institutional management have needed to balance Commonwealth mandates such as salary increases for staff and instructors or limits of tuition increases with the operating needs of the institution.

In balancing their operating needs with Commonwealth mandates and the diverse operating nature of the individual institutions, there has developed a significant variation in the revenue and expense structure of the institutions. The variation in the revenue structure makes comparison of the various institutions' operating environments difficult. Much of the variation comes from how individual institutions have responded to restrictions on the tuition and fee increases over time. Certain tuition increase restrictions led to the switch of some operations to a self-supporting fee structure. Then when the Commonwealth instituted restrictions on mandatory fees a further shift of activities occurred to other non-mandatory fees.

Tuition, mandatory fees, and auxiliary enterprise charges continue to constitute the single largest source of income to most institutions. Auxiliary enterprises are typical business activities the institution has to provide goods or services to students and faculty. Examples of auxiliary enterprise activities include dormitories, dining facilities, and student athletics. However, Board of Visitors and institutional management have used all of these revenue sources to deal with the restriction on increasing tuition and fees while at the same time, having to meet the mandate of funding salary increases. These revenue sources are also highly sensitive to external factors, primarily a student's willingness to incur these costs.

Several institutions have significant revenues from research grants and contracts, gifts, and investment income. Research grants and contracts serve primarily as a means of developing the institution's prestige and standing but have a limited resource contribution in most of the Commonwealth's institutions. While gifts and investment income are vital resources, these revenues only constitute a significant funding resource in approximately six of the institutions.

Some institutions use foundations to conduct certain activities and to hold endowment funds and other resources. Foundations play a vital role in institutional operations, but foundation activities are normally outside of the institution's public activities, we will only discuss the foundations in terms of their activities, which may affect the institution and the Commonwealth debt financing.

Students and the Commonwealth remain an institution's primary income source, unless, an institution has access to significant gifts and investment income. Student's ability to pay tuition, mandatory fees and auxiliary enterprise charges is a major operating concern of the Board of Visitors. Therefore, any events, which directly affect a student's ability to pay and attend an institution, need to become an integral part of an institution's strategic and operational planning.

Capital Financing Consideration

Institutions have significant capital needs for buildings, infrastructure, and equipment. Historically, the major contributor for additional capital needs has been the growth of Virginia's general population, which eventually created the need for the institutions to expand their facilities. Another a contributing factor is the Commonwealth and the institution's current process for funding and maintaining facilities.

For most of the past two decades, the institutions and the Commonwealth have funded capital costs with the use of debt financing. There are a number of debt financing options available to the Commonwealth and institutions, and we will discuss various debt issuance methods later.

Fundamentally, the Commonwealth and institutions have only two options, the Commonwealth uses its debt capacity and issues the debt and pays the debt service, or the institution issues the debt and pays the cost. The Commonwealth has issued debt for buildings, infrastructure, and equipment through various means and used general tax supported resources to pay the debt service.

Commonwealth debt supported by general tax resources does not represent a direct cost to the institution or student. Under this option, the Commonwealth sets aside, in the Appropriation Act, the amounts for the debt proceeds to pay for individual projects and the annual debt service in total, which the Treasury Board, acting as the Commonwealth's agent, pays.

Institutions often do not include this debt service payment as a form of Commonwealth support to the institution. We will discuss the need to reconsider the inclusion of this support when developing a capital financing plan.

The second option for capital financing involves the institution directly incurring the debt and having to support the related debt service cost. Historically, the institutions have used a direct debt issuance for a specific project with a dedicated revenue source. The classic example of this type of the capital financing is a revenue bond to build a dormitory and dining hall with the future dormitory and meal plan fees dedicated for the payment of debt service.

Another capital financing structure has been some form of capital lease. Under this arrangement the institution enters into an agreement with a third party to lease a facility, equipment, or some other capital asset for a period in which the institution uses up most of the economic value of the asset. This type of capital financing has a number of forms, arrangements, or payment terms, but ultimately the institution has control of the asset and therefore is liable.

Both of the institutional capital financing structures have an effect on student tuition and fees. As in the example of the dormitory and dining hall, a portion of a student's dorm and dining hall bill pays for debt service. Similarly, when the institution enters into a capital lease for all of the copiers on campus a portion of the tuition bill makes the lease payments for the copiers.

Institutions have entered into several arrangements within the past several years, which have blurred the line between tuition and fees and auxiliary enterprise revenues sources. As an example in order to fund an expansion of the student health facilities, which had been part of tuition, the institution has set a student health fee that supports the facility and debt service and is now an auxiliary enterprise.

Finally, institutions are also entering into agreements that have no direct financial relationship between the institution and a third party; however, the institution has agreed to certain actions. The most common agreement currently is an institution's commitment to direct students to housing owned by a third party. In some cases, the institution bills and collects the housing fees as part of the collection of tuition and fees and transmits the money to the third party. Although the rental agreement is clearly in the name of the third party and student, this arrangement makes it appear that the institution has more than a passing relationship.

Planning and Managing Capital Debt

Planning and managing capital debt is a component of planning and managing the institution. Since institutions historically have had intense capital needs, the financing of the projects should be part of the institution's strategic planning. All the institutions have master plans for both capital expansion as well as renovation. The plans address both the institution's current needs and use student population projections, mission development projects and, in some cases, activities within and around the institution's community to support economic growth.

The sophistication and level of detail of the various institutional strategic and master plans varies among the institutions. Most institutions do tend to follow these plans.

The plans also have a long-term horizon because of the Commonwealth capital outlay approval process. Because of the uncertainty of capital funding, most plans do not specifically address the mechanism for funding any of the projects, unless they are not using state support. Institutions have adopted this approach in response to the problems they perceive with the Commonwealth's capital outlay process and funding mechanism. The institutions have too often submitted a project for funding under one method and, before the completion of the budget had the project approved under another method.

As of November 2006, seven of the institutions have Board of Visitor approved debt policies and only the University of Virginia has as part of their capital planning process a debt capacity provisions in its comprehensive debt policy. The comprehensive debt policy determines the amount of debt it should incur and we will discuss this model in greater detail later. Most institutions use the current guidelines developed by the State Council of Higher Education, which suggest that debt service should not exceed seven percent of expenditures. Capital planning at most institutions does not include a formal process for considering the project's effect on the institution's ability to absorb debt or alternatives to funding the project with other means.

Determining Debt Capacity

Debt capacity is the method by which an organization determines the amount of debt it can take on while maintaining the flexibility to respond to changing business environments. In government, debt capacity is typically the amount of debt service a government can pay before it over commits revenues or restricts its ability to redirect funding. Most debt capacity models exist as a function of both expenses and revenues.

As an example, the Commonwealth debt capacity model examines its ability to issue more debt in relation to the ability to generate and collect revenue. The Commonwealth has limited itself to issuing tax-supported debt, which spends no more than five percent of its general taxes on debt service. The model defines tax-supported revenue, what types of debt this revenue stream supports, and then calculates the amount of debt the Commonwealth may prudently issue including certain stress tests projecting possible interest rates on the debt and its effect on the limit.

Only the University of Virginia has as part of their capital planning process a debt capacity provisions in its comprehensive debt policy to determine the amount of debt it should incur. As previously mentioned, most institutions use the current guidelines developed by the State Council of Higher Education, which suggest that debt service should not exceed seven percent of expenditures. Following is a discussion of how most institutions review debt capacity and some inherent problems with the current approach.

Current Debt Capacity Practices

Most institutions' current debt capacity practices do not include several components of what are considered key elements of understanding and planning capital financing whether it is in the commercial or government service environments such as colleges and universities. The key elements include the following:

1. Consideration of the consumer
2. Revenue generation
3. Capital commitment beyond debt service
4. Planning capital financing both short and long-term
5. Evaluation criteria for alternate financing

The University of Virginia has a debt capacity model approved by its Board of Visitors; six other institutions have Board approved debt capacity models. Based on a review of several published debt capacity models at other institution of higher education in other states, we have found that all of the other models include the elements noted above.

The University of Virginia's model addresses all but one of these elements, consideration of the consumer. Each institution's model should address these elements in varying levels of detail, however, at a fundamental level there are goals and objectives that a capital project and its financing must meet. Details must reflect the individual institution's mission and targeted market.

Consideration of the Consumer

As discussed above, institutions have managed their debt on a project-by-project basis. If the institution could show the Commonwealth that the project would provide sufficient revenues to pay the debt service and the institution had a need for the project, the Commonwealth normally approved the project and then issued the debt. This project-by-project approach ignored the effect of debt service cost on the student. These projects were typically optional activities, such as housing, dining halls, or auxiliary enterprise activities, which are products or services the student can elect to buy.

However, for most of the past two decades funding capital projects has shifted to include activities traditionally funded through tuition. These activities may include student centers, health clinics, multi-use buildings, and other items, which were part of tuition costs to the student.

In order to use the project-by-project model, the institution began setting these projects up to appear to be auxiliary enterprise activities. However, unlike typical auxiliary enterprises, the student does not have the option to purchase or not use the activity. The institutions assess a fee to all students and allocate this fee to the various activities to cover costs and debt service. This approach now makes these fees part of the students cost of attending the institution just like tuition.

Many factors affect a student and their parent's decision in selecting an institution. The factors may include the institution's academic and social reputation, location, and other items, but cost of attendance is also a significant factor.

As consumers, students and their parents consider both the long-term and short-term cost of attending an institution. They are also concerned over which costs they can control and those that are fixed attendance costs. Students and parents have some control over items, such as books by buying new versus used or housing costs by living on campus or looking for off campus housing. Fixed attendance costs are only controlled by the institution, and not the consumer, the student and parents.

In commercial entities, a key factor in decision-making includes considering the impact on the consumer. Virginia institutions should include in their mechanism for making capital decisions, debt capacity measures that consider the impact of capital decisions and their long-term cost. They should also consider whether those costs are mandatory or optional costs to the consumer.

Revenue Generation

In addition to considering the effects of debt service on the cost of attendance, the institution needs to anticipate what the effects are of the cost of optional services, if the student can elect to spend funds elsewhere. The classic example of this consideration is student housing.

Student demands in housing have significantly changed over the past 25 years. Dormitories have gone from simply sleeping and studying spaces with communal baths to apartment style units with multiple baths and sufficient wiring to handle all the current electronic needs. Student housing options depend on the institution's location and may find the institution competing with available private housing especially designed for students.

The dormitory project above is a clear example of the issue of revenue generation, which the institution would need to consider when looking at its capital needs and financing. This example also points out one of the shortfalls of the Commonwealth's current project-by-project revenue approach to financing.

Revenue generation is also a function of not only making debt service, but also the ability of the project to pay all of other costs associated with the project over time. Using the dormitory example again, projecting out maintenance costs, fuel, and other typical rental property costs is an essential component of revenue generation factors, which will drive future costs.

While it is unlikely that anyone can predict the student housing trend over the life of the bonds, it is a clear example that looking at the market and the availability of alternatives should be a factor of the ability of an institution to fund debt service long-term. Capital planning would indicate a need to at least consider market trends, determine if facilities have alternate uses that generate revenue, and finally, the size and financing the project debt in terms of the risk of not generating long-term revenues.

As these factors change over time, depending on outside market forces, the institution may find itself in competition to attract a student's money. If apartment living is available, but the institution only offers the older style dormitory, students will elect not to live in the dormitories, therefore resulting in revenue losses.

Capital Commitment beyond Debt Service

Capital investments require more that just debt service and have their own life cycle that will require significant commitments of resources for major maintenance. Periodic major maintenance costs occur with any facility, such as the replacement of roofs, air conditioning, and other mechanical systems. Debt capacity models need to consider how the institution intends to address these issues over time, since some of the maintenance will occur before the debt is retired.

If the institution's intent is to set the funding aside as part of its revenue generation, then there is no impact on debt capacity. However, if the institution's intent is to finance these maintenance items with debt, there is an impact on debt capacity. Part of any debt capacity model is to include anticipated debt issuances and factor them against the institution's capacity.

Planning Capital Financing both Short and Long-Term

Debt capacity models do not only review an entity's ability to absorb debt, but are planning tools to decide when an entity should incur debt and attempt to determine what affect this issuance will have on the institution. These debt capacity models coupled with the institution's strategic and capital plans should help guide the institution in achieving those goals.

The debt capacity model coupled with a debt management program should also allow the institution to manage its overall debt position. The ability to take advantage of favorable interest rates for refunding or accelerating a project and knowing its effect are part of the planning process.

Evaluation Criteria for Alternate Financing

The final part of a debt capacity model is the development of criteria to evaluate alternate financing proposals and their effect on the institution. Alternate financing can create differing forms of obligations, which can either directly or indirectly affect the institution's debt capacity. A debt capacity model provides a systematic approach to evaluating these proposals and their affect.

University of Virginia Debt Capacity Model

As stated earlier, only the University of Virginia has a formally adopted debt capacity model. The debt capacity policy states its role in fulfilling the University's mission and its strategic and capital outlay plans. The policy defines the oversight and approval processes, defines key measures and ratios for decision analysis, and discusses the acceptable use of potential types of debt including the use of derivatives.

Below we summarize the content of the University's debt policy and believe, with one exception, that the policy addresses all of the major components of the Debt Capacity Model we discuss in this section of the report.

Purpose

The debt policy discusses its use by management and the Board in their efforts to fulfill their strategic and capital outlay plans. This discussion includes defining the institution's controls for analyzing, approving, and managing debt options for short and long term funding needs. The University has established the policy to consider its objectives when accessing the financial market, ensure creditworthiness, define allowable allocations of specific types of debt, and define budget flexibility and liquidity to meet future needs. However, it does not directly define how to coordinate debt policy decisions with the impact on student tuition and fees and other funding sources.

Oversight

The debt policy clearly states the responsibilities of management and the Board of Visitors for implementation, including authorization to incur debt. In addition, this policy states the Board of Visitors' expectations related to compliance monitoring of policy measures and defines limitations for specific types of exposure.

Debt Affordability and Capacity Measures

The debt policy includes measures that allow management and the Board to ensure debt affordability, capacity, and liquidity, but not the impact on student tuition and fees. The collective evaluation of multiple measures provides a comprehensive view of all risk considerations as defined by the Board. The University uses these measures to clearly communicate its debt management philosophy and ongoing assessment of debt capacity and affordability.

The policy uses annual debt service as a percentage of total operating expenses because they assert that operational expenses are more stable than operational revenue that may include one-time operating gifts, investment earnings fluctuations, and variability of Commonwealth funding. The policy also measures debt service coverage by calculating their operating gain or loss plus non-operating revenue and depreciation as a percentage or annual debt service. This measure allows the University to monitor its ability to cover debt service with operating revenues. Additional measures include a viability ratio and debt capitalization percentage. The viability ratio measures the liquidity of assets related to debt by calculating their unrestricted net assets plus restricted expendable net assets as a percentage of aggregate debt. Their capitalization percentage allows the University to monitor the percentage of capital that comes from debt to prevent becoming overly leveraged. The policy calculates this measure by dividing aggregate debt by total net assets plus aggregate debt.

Financing Sources/Type of Debt

The policy ensures all financing structures receive a full review for each transaction including quantifying potential risks and benefits and analyzing the impact on the University creditworthiness and debt affordability and capacity. This review includes weighing the benefits of university-issued versus state-issued debt related to cost effectiveness, flexibility in market timing, and bond ratings. In addition, the Policy also discusses how they will consider the use of bridge funding tax-exempt versus taxable debt and the use of derivative products.

Portfolio Management of Debt

In the University's effort to manage debt on a portfolio basis as opposed to on a project-by-project basis, they have included in their debt policy considerations for exposure to variable interest rates and other types of financings and exposures to third parties. The University will allow exposure to variable rate debt to take advantage of repayment flexibility, to benefit from historically lower than average interest costs to provide a match between debt service requirements and the project cash flows from the University assets, and to diversify their pool of potential investors. The policy requires management to monitor exposure and sets requirements for adjustments to the portfolio allocation of 40 percent of the University's outstanding debt. The University of Virginia recognizes that the use of variable rate debt and forms of short-term financings requires liquidity. They have included discussion on how they can obtain or avoid the need for outside liquidity.

We believe that the University's debt policy is a framework that other Virginia institutions could use to develop a debt capacity policy. We believe the Debt Affordability and Capacity Measures should be expanded to include more of the effect that debt has on the student's cost of attendance payments and the optional purchase type activities discussed earlier.

While we understand the University's position on measuring debt in terms of expenses, we believe that they should provide equal weight to their operating revenue. Further, we believe the operating revenue measure should compensate for any significant variations in income and should represent a measure over time.

Institutional Debt Capacity Model

The Commonwealth has allowed the institutions to develop separately and, as a result, each institution has its own unique accounting and financial condition. Therefore, one debt capacity model is probably not a practical solution in the Commonwealth. Further with the movement for decentralization and exemptions from certain guidelines, the need to monitor and review debt increases.

This report has discussed the elements of what constitutes a working debt capacity model. We believe with the exception of expanding considerations for the revenue and consumer portion of the model, the University of Virginia can serve as an example framework for other institutions in the Commonwealth.

The Secretary of Finance working with the Treasury Board and the State Council of Higher Education should assist the institutions in developing debt capacity models. Those models should address each element of the model discussed in this report. This model needs to serve not only as a guide for the institutions, but as a working document for the Commonwealth to assess the impact of debt on the Commonwealth's potential debt capacity.

Institutional Debt and the Commonwealth

Clearly institutional debt has an impact on the Commonwealth. Rating agencies view the institutions as component units of the Commonwealth, and while not legally liable for all of the debt, see the Commonwealth as the potential guarantor of the debt. Currently, the Commonwealth controls most of the debt institutions incur by requiring the approval of the Treasury Board to review the structure and terms of the debt before the institution issues debt or the Commonwealth issues the debt on behalf of the institution.

The approval process has historically reviewed the institution's request for issuing debt on a project-by-project basis. The Treasury Board has set guidelines for the debt it must review and timing of the review. This approach does not review the totality of an institution's debt structure. Additionally, this approach has encountered problems as institutions enter into new and different types of financing. Some of the institutions have not gotten the Treasury Board's approval for certain transactions; since the institutions did not believe the transaction involved an obligation.

The Treasury Board does not normally review agreements where the institution commits to an action with a third party, which may appear to create a guarantee on the part of the institution to a third party. An example is where a Foundation constructs apartments for student use and the institution agrees to assign students looking for housing to the Foundation's apartments.

Institutions may be entering into various agreements, which bind them and, in turn, the Commonwealth to meeting future commitments. Our review of the existing literature indicates that as this form of alternative financing expands, the bond rating agencies may consider this not only debt of the institution, but debt of the Commonwealth.

The Treasury Board is not equipped to monitor, review, and approve these diverse and complex agreements. An institutional debt capacity model, such as the University of Virginia's model, should allow institutions to evaluate and review these agreements as they move forward. The Treasury Board or Secretary of Finance could use this information to monitor the level of incurred debt, which the Commonwealth may appear to be guaranteeing.

Commonwealth Debt Capacity

The Commonwealth has an effective program to monitor debt capacity in terms of tax-supported debt through its debt capacity model and Debt Capacity Advisory Committee. Since most other debt has been directly revenue supported, the review and monitoring of the debt has been project-by-project. Since the Commonwealth's current practices limit the nature and type of obligations incurred, expanding the capacity model to the Commonwealth is probably not necessary.

However, the Debt Capacity Advisory Committee should review the debt capacity models that the institutions develop and have the institutions report periodically on how they use them. The Debt Capacity Advisory Committee should report the results to the General Assembly. This review would provide the Debt Capacity Advisory Committee the ability to explain the effect, if any, on the financing of institutions other than the traditional forms of debt.

Other Matters

The Commonwealth, in addition to direct appropriations, provides significant resources to the institutions in the form of direct payment of debt services as shown in Appendix C. Over 52 percent of the Commonwealth's outstanding tax supported debt relates to projects for institutions of higher education. Debt service payments for higher education for the fiscal year ended June 30, 2005 was approximately $82,679,155. Incurring these costs directly reduces the cost of attendance at each of the Commonwealth institutions. In the future, if the institutions begin issuing more of their debt independently, this could significantly affect the student's cost of attendance.

Conclusion

Virginia's institutions of higher education have developed unique and independent financial operating models. These institutions also have a widely varying level of fiscal sophistication and financial management. As we have reviewed the debt capacity of various institutions, it is clear that one model, even general in nature, would not provide an effective tool for either the Commonwealth or the individual institutions.

We do believe that each institution should develop and have a debt capacity model to guide their issuance of debt. These models should equally consider both the debt service cost associated with the debt, but more importantly, the effect that debt service can have on mandatory fees and other cost to the students. Historically, Virginia's approach to reviewing debt issuance in many cases only focuses on the project's ability to generate sufficient revenue to pay debt service on the bonds or whether debt service cost will remain below a certain percentage of expenses. These approaches both fail to consider the costs to the student if the project becomes part of the comprehensive cost of attendance or tuition and fees.

Issuing debt is also a mechanism of providing infrastructure for the institution. Infrastructure acquisition in the institutions has also become more complex and riskier as institutions began to establish new joint ventures with private companies, foundations, and limited partnerships. Additionally, the arrangements can create both legal and moral obligations for the institutions. In some cases, these joint ventures expand the institution's presence into the community or neighborhood. Institutions also need to understand and evaluate their relationship in the joint venture and the effect that the parties of the joint venture can have on the institution.

In addition to the change of focus from the project generating sufficient revenue to considering the impact on the student cost, we also believe that the debt capacity model should have some underlying principles and considerations. These principles and considerations should include long term strategic planning, clear investment and debt management policies, governing board's role, fundraising capability, level of management oversight, and budgeting practices.

Finally, the Commonwealth needs to evaluate these various debt capacity models to determine the extent institutions are affecting the Commonwealth's debt capacity and bond rating. Although, the institutions have received exemptions from certain state regulations or laws, their actions continue to have a direct effect on the Commonwealth. The financial market analysts do not separate the actions of the institutions of higher education from the Commonwealth's overall financial status and bond rating. The use of joint ventures with other organizations also could have an impact on the Commonwealth in the financial markets, if they believe that the Commonwealth will assume a guarantor role in these arrangements.

Recommendations

1. Each institution should develop and use a debt capacity model approved by the institution's Board of Visitors and compliant with the guidelines of the Secretary of Finance and the State Council of Higher Education.

2. The debt capacity model should include a component, which considers the effect of debt service on the cost of attendance.

3. The General Assembly may wish to have the Debt Capacity Advisory Committee review the institutions' debt capacity models and periodically report on how the institutions are using them and their results.

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Walter J. Kucharski, Auditor
Richmond, Virginia 23218

November 21, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have completed our review of debt at state supported Institutions of Higher Education in accordance with Item 1-2 E. of Chapter 3 of the 2006 Acts of the Assembly and submit our report entitled, **"A Review of Debt at State Supported Institutions of Higher Education."** We conducted our review in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Objectives

We had two objectives for our review of debt at state supported Institutions of Higher Education. These objectives were:

1. To determine the method to evaluate a process defining the amount of debt for each institution of higher education and its impact; and

2. To determine alternatives to the current process for issuing and monitoring debt and the affect the debt has on the Commonwealth's debt capacity.

3. To determine whether the Commonwealth should develop debt capacity guidelines for Virginia's institutions of higher education.

Scope

Our study included a review of all institutions of higher education and the Commonwealth Debt Capacity model.

Methodology

Our review procedures included a comparison of the institutions' process for incurring debt and existing debt governance processes within the institutions. We looked at the Commonwealth's and other entities' debt capacity models and any specifically designed for institutions of higher education.

Conclusions

Virginia's institutions of higher education have developed unique and independent financial operating models. These institutions also have a widely varying level of fiscal sophistication and financial management. As we have reviewed the debt capacity of various institutions, it is clear that one model, even general in nature, would not provide an effective tool for either the Commonwealth or the individual institutions.

We therefore make the following recommendations.

1. Each institution should develop and use a debt capacity model approved by the institution's Board of Visitors and compliant with the guidelines of the Secretary of Finance and the State Council of Higher Education.

2. The debt capacity model should include a component, which considers the effect of debt service on the cost of attendance.

3. The General Assembly may wish to have the Debt Capacity Advisory Committee review the institutions' debt capacity models and periodically report on how the institutions are using them and their results.

Finally, the Commonwealth needs to evaluate these various debt capacity models to determine the extent institutions are affecting the Commonwealth's debt capacity and bond rating. Although, the institutions have received exemptions from certain state regulations or laws, their actions continue to have a direct effect on the Commonwealth. The financial analysts do not separate the actions of the institutions of higher education from the Commonwealth's overall financial status and bond rating. The use of joint ventures with other organizations also could have an impact on the Commonwealth in the financial markets, if they believe that the Commonwealth will assume a guarantor role in these arrangements.

AUDITOR OF PUBLIC ACCOUNTS

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Appendix A

DEBT SERVICE PER STUDENT

FISCAL YEAR 2005

	Total Debt Service by Institution	Full Time Equivalent	Debt Service per Full Time Equivalent
Christopher Newport University	$ 7,838,360	4,322	$ 1,814
College of William and Mary	7,365,582	7,625	966
George Mason University	14,467,647	22,569	641
James Madison University	9,499,028	16,697	569
Longwood University	2,195,421	4,099	536
University of Mary Washington	2,778,699	5,024	553
Norfolk State University	2,673,199	16,308	164
Old Dominion University	8,363,629	9,122	917
Radford University	141,349	4,351	32
University of Virginia	23,913,297	24,463	978
Virginia Commonwealth University	17,855,664	24,418	731
Virginia Military Institute	677,361	1,531	442
VPI & State University	20,026,000	28,215	710
Virginia State University	1,807,388	4,897	369

Note:

This schedule shows the total debt service for bonded debt by institution divided by the Full Time Equivalent Student to give the per student cost of debt service regardless of funding source.

Appendix B

TYPES OF DEBT

Bonds

The Commonwealth issues all bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(b) bonds are General Obligation bonds secured with general tax revenues as approved by voter referendum. 9(c) and 9(d) bonds are bonds secured by a dedicated revenue stream. Section 9(b) and 9(c) bonds are tax-supported general obligation bonds with the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds do not have the full faith, credit, and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not a legal liability of the Commonwealth. The Commonwealth may support this debt by State appropriations in whole or in part, as in the case of certain debt of the Virginia College Building Authority.

Some institutions and agencies issue 9(d) revenue bonds and pay the debt service from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as teaching hospitals, dormitories, student centers, and dining halls at the various colleges and universities. To improve the credit worthiness of some of these bonds such as those issued by the Virginia College Building Authority, the Commonwealth has an intercept provision, which allows the Commonwealth to use state funds intended for the institution to make debt service payments.

Capital Leases

Institutions can lease buildings and equipment under various agreements, which allows the institution to enter into a long term agreement for the exclusive use of the asset. Generally, the institution acquires essentially all of the economic benefits and risks associated with the leased property. For a lease agreement to meet the capital lease requirements, there must be a binding agreement that meets one of the following requirements.

1. A bargain purchase option.
2. The lease transfers ownership at the end of the lease term.
3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments is equal to 90 percent or more of the excess of the fair value of the asset.

Historically, these agreements primarily occur when an institutional foundation issues bonds to finance the construction of a building. The foundation and the institution enter into a capital lease agreement that cause the lease payments to equal at least debt service requirements. This method of financing is also gaining usage in arrangements with outside third parties for limited use construction, such as apartments.

Notes Payable

Institutions enter into notes payable for a variety of reasons, including short term financing for equipment, building restoration, and technology hardware and software. In addition, when institutions enter into the Virginia College Building Authority pooled bond-financing program they enter into a notes payable for their portion of the bond issue.

Other Liabilities

Institutions also incur other operating liabilities such as compensated absences for vacation and other leave, pension cost and other benefit programs. While these represent significant liabilities, we did not include them in our discussion of debt capacity. However, several organizations do include these liabilities for informational purposes.

Appendix C

STATE SUPPORT INCLUDING DEBT

FOR FISCAL YEAR 2005

In addition to direct General Fund support to individual institutions, the Commonwealth pays the debt service on certain bonds, which directly benefit institutions of higher education. The table below shows the amount of the debt service cost that the Commonwealth pays.

	General Fund Appropriations	Debt Service Support	Total Support Available
Christopher Newport University	$ 25,008,016	$ 5,387,474	$ 30,395,490
College of William and Mary	63,155,599	3,672,555	66,828,154
George Mason University	112,012,290	9,068,037	121,080,327
James Madison University	63,532,170	7,164,839	70,697,009
Longwood University	21,366,581	3,367,312	24,733,893
University of Mary Washington	16,540,523	1,683,022	18,223,545
Norfolk State University	44,818,849	3,263,865	48,082,714
Old Dominion University	89,002,497	6,535,777	95,538,274
Radford University	41,587,358	3,326,907	44,914265
University of Virginia	143,605,000	11,390,678	154,995,678
Virginia Commonwealth University	162,694,758	6,867,739	169,562,497
Virginia Military Institute	9,695,313	2,110,700	11,806,013
VPI & State University	170,374,000	15,248,474	185,622,474
Virginia State University	30,631,630	3,591,774	34,223,404
Totals	$ 994,024,584	$ 82,679,153	$ 1,076,703,737

Appendix D

Target Debt Capacity as % of Revenues (B)	5%				
	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	Blended Revenues (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional Debt Service
JMU					
Actual 2002	$ 134,754,679	$ 6,737,734	$ 10,823,362	**8.03%**	$ (4,085,628)
Actual 2003	146,950,158	7,347,508	10,671,497	**7.26%**	(3,323,989)
Actual 2004	163,387,735	8,169,387	9,557,209	**5.85%**	(1,387,822)
Actual 2005	174,422,146	8,721,107	9,499,028	**5.45%**	(777,921)
2006	190,113,860	9,505,693	8,773,161	**4.61%**	732,532
2007	207,217,263	10,360,863	8,761,057	**4.23%**	1,599,806
2008	225,859,357	11,292,968	8,751,294	**3.87%**	2,541,674
2009	246,178,568	12,308,928	8,245,304	**3.35%**	4,063,624
2010	268,325,777	13,416,289	7,830,858	**2.92%**	5,585,431

Blended revenues does not include appropriations in the amount of $62,729,074, $57,128,219, $53,418,499, $58,795,221 for fiscal years 2002, 2003, 2004, and 2005 respectively.

Fiscal Year	Blended Revenues (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional Debt Service
CNU					
Actual 2002	$ 27,676,104	$ 1,383,805	$ 3,165,028	**11.44%**	$ (1,781,223)
Actual 2003	37,437,796	1,871,890	5,994,817	**16.01%**	(4,122,927)
Actual 2004	40,600,249	2,030,012	5,295,506	**13.04%**	(3,265,494)
Actual 2005	47,648,995	2,382,450	7,838,360	**16.45%**	(5,455,910)
2006	57,350,330	2,867,517	10,124,216	**17.65%**	(7,256,699)
2007	69,026,858	3,451,343	10,833,772	**15.70%**	(7,382,429)
2008	83,080,726	4,154,036	10,826,212	**13.03%**	(6,672,176)
2009	99,995,962	4,999,798	10,839,100	**10.84%**	(5,839,302)
2010	120,355,139	6,017,757	10,441,069	**8.68%**	(4,423,312)

Blended revenues does not include appropriations in the amount of $21,946,252, $20,269,091, $19,545,129, $22,201,518 for fiscal years 2002, 2003, 2004, and 2005 respectively.

Fiscal Year	Blended Revenues (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional Debt Service
VCU					
Actual 2002	$ 167,844,395	$ 8,392,220	$ 18,124,231	**10.80%**	$ (9,732,011)
Actual 2003	176,738,265	8,836,913	15,940,198	**9.02%**	(7,103,285)
Actual 2004	199,400,861	9,970,043	16,727,010	**8.39%**	(6,756,967)
Actual 2005	227,990,683	11,399,534	17,855,664	**7.83%**	(6,456,130)
2006	252,659,275	12,632,964	19,642,391	**7.77%**	(7,009,427)
2007	279,997,008	13,999,850	20,328,351	**7.26%**	(6,328,501)
2008	310,292,685	15,514,634	20,257,055	**6.53%**	(4,742,421)
2009	343,866,353	17,193,318	20,287,825	**5.90%**	(3,094,507)
2010	381,072,693	19,053,635	20,253,698	**5.31%**	(1,200,063)

Blended revenues does not include appropriations in the amount of $178,235,785, $164,330,658, $143,267,343, $158,072,660, for fiscal years 2002, 2003, 2004, and 2005 respectively.

(1) Blended revenues consist of tuition and fees, auxiliary enterprise revenue, other income, and investment income. Figures for 2002-2005 ar derived from each higher educational institutions financial statements. Figures for 2006 - 20010 are an average of the revenue growth between fiscal year 2002-2005.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments

D	D/A	C+D	(C+D)/A	{(A*B)-(C+D)}/K
Annual Payments for Debt Service Paid by Commonwealth (3)	**Commonwealth Debt Service as a % of Institution Revenues**	**Total Debt Payments (4)**	**All Debt Service as a % of Institution Revenues**	**Net Capacity to Pay Additional Institutional & Commonwealth Debt Service**
$ 2,727,062	**2.02%**	$ 13,550,424	**10.06%**	$ (6,812,690)
3,203,922	**2.18%**	13,875,419	**9.44%**	(6,527,911)
4,876,933	**2.98%**	14,434,142	**8.83%**	(6,264,755)
7,164,839	**4.11%**	16,663,867	**9.55%**	(7,942,760)
6,464,204	**3.40%**	15,237,365	**8.01%**	(5,731,672)
6,427,391	**3.10%**	15,188,448	**7.33%**	(4,827,585)
6,068,342	**2.69%**	14,819,636	**6.56%**	(3,526,668)
5,418,662	**2.20%**	13,663,966	**5.55%**	(1,355,038)
4,620,684	**1.72%**	12,451,542	**4.64%**	964,747
$ 1,753,619	**6.34%**	$ 4,918,647	**17.77%**	$ (3,534,842)
2,578,970	**6.89%**	8,573,787	**22.90%**	(6,701,897)
4,058,358	**10.00%**	9,353,864	**23.04%**	(7,323,852)
5,387,474	**11.31%**	13,225,834	**27.76%**	(10,843,384)
4,304,197	**7.51%**	14,428,413	**25.16%**	(11,560,896)
4,269,446	**6.19%**	15,103,218	**21.88%**	(11,651,875)
3,678,207	**4.43%**	14,504,419	**17.46%**	(10,350,383)
3,105,060	**3.11%**	13,944,160	**13.94%**	(8,944,362)
2,900,187	**2.41%**	13,341,256	**11.08%**	(7,323,499)
$ 3,502,667	**2.09%**	$ 21,626,898	**12.89%**	$ (13,234,678)
4,637,863	**2.62%**	20,578,061	**11.64%**	(11,741,148)
6,167,512	**3.09%**	22,894,522	**11.48%**	(12,924,479)
6,867,739	**3.01%**	24,723,403	**10.84%**	(13,323,869)
7,183,249	**2.84%**	26825639.97	**10.62%**	(14,192,676)
7,145,721	**2.55%**	27474072.1	**9.81%**	(13,474,222)
6,342,404	**2.04%**	26599459.49	**8.57%**	(11,084,825)
5,898,940	**1.72%**	26186765.04	**7.62%**	(8,993,447)
5,488,526	**1.44%**	25742224.37	**6.76%**	(6,688,590)

Target Debt Capacity as % of Revenues (B) **5%**

	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	**Blended Revenues (1)**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service Paid by Institution (2)**	**Institution Debt Service as a % of Institution Revenues**	**Net Capacity to Pay Additional Institutional Debt Service**
GMU					
Actual 2002	$ 145,562,587	$ 7,278,129	$ 12,183,602	**8.37%**	$ (4,905,473)
Actual 2003	157,710,210	7,885,511	13,410,305	**8.50%**	(5,524,795)
Actual 2004	182,172,526	9,108,626	14,847,279	**8.15%**	(5,738,653)
Actual 2005	200,031,915	10,001,596	14,467,647	**7.23%**	(4,466,051)
2006	222,475,496	11,123,775	14,238,284	**6.40%**	(3,114,509)
2007	247,437,246	12,371,862	15,050,176	**6.08%**	(2,678,314)
2008	275,199,706	13,759,985	15,145,720	**5.50%**	(1,385,735)
2009	306,077,113	15,303,856	14,732,739	**4.81%**	571,117
2010	340,418,965	17,020,948	12,875,744	**3.78%**	4,145,204

Blended revenues does not include appropriations in the amount of $112,855,516, $97,639,963, $90,593,048, $100,043,208 for fiscal years 2002, 2003, 2004, and 2005 respectively.

LU					
Actual 2002	$ 32,251,578	$ 1,612,579	$ 2,543,463	**7.89%**	$ (930,884)
Actual 2003	33,854,050	1,692,703	2,527,744	**7.47%**	(835,042)
Actual 2004	38,102,972	1,905,149	2,918,165	**7.66%**	(1,013,016)
Actual 2005	41,413,158	2,070,658	2,195,421	**5.30%**	(124,763)
2006	45,032,668	2,251,633	3,876,720	**8.61%**	(1,625,087)
2007	48,968,523	2,448,426	3,335,431	**6.81%**	(887,005)
2008	53,248,372	2,662,419	3,303,808	**6.20%**	(641,389)
2009	57,902,280	2,895,114	3,285,616	**5.67%**	(390,502)
2010	62,962,939	3,148,147	3,242,489	**5.15%**	(94,342)

Blended revenues does not include appropriations in the amount of $19,360,370, $17,526,666, $16,654,174, $19,021,471 for fiscal years 2002, 2003, 2004, and 2005 respectively.

ODU					
Actual 2002	$ 88,420,781	$ 4,421,039	$ 8,142,830	**9.21%**	$ (3,721,791)
Actual 2003	89,738,029	4,486,901	9,134,663	**10.18%**	(4,647,762)
Actual 2004	100,609,274	5,030,464	9,131,898	**9.08%**	(4,101,434)
Actual 2005	106,324,715	5,316,236	8,363,629	**7.87%**	(3,047,393)
2006	113,161,394	5,658,070	8,337,553	**7.37%**	(2,679,483)
2007	120,437,672	6,021,884	8,270,361	**6.87%**	(2,248,477)
2008	128,181,814	6,409,091	8,183,259	**6.38%**	(1,774,168)
2009	136,423,905	6,821,195	8,122,088	**5.95%**	(1,300,893)
2010	145,195,962	7,259,798	8,097,380	**5.58%**	(837,582)

Blended revenues does not include appropriations in the amount of $82,872,836, $73,744,448, $69,702,665, $79,403,718 for fiscal years 2002, 2003, 2004, and 2005 respectively.

(1) Blended revenues consist of tuition and fees, auxiliary enterprise revenue, other income, and investment income. Figures for 2002-2005 are derived from each higher educational institutions financial statements. Figures for 2006 - 20010 are an average of the revenue growth between fiscal year 2002-2005.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments.

D	D/A	C+D	(C+D)/A	{(A*B)-(C+D)}/K
Annual Payments for Debt Service Paid by Commonwealth (3)	**Commonwealth Debt Service as a % of Institution Revenues**	**Total Debt Payments (4)**	**All Debt Service as a % of Institution Revenues**	**Net Capacity to Pay Additional Institutional & Commonwealth Debt Service**
$ 3,019,604	**2.07%**	$ 15,203,206	**10.44%**	$ (7,925,077)
5,092,928	**3.23%**	18,503,233	**11.73%**	(10,617,723)
7,236,281	**3.97%**	22,083,560	**12.12%**	(12,974,934)
9,068,037	**4.53%**	23,535,684	**11.77%**	(13,534,088)
8,447,341	**3.80%**	22,685,625	**10.20%**	(11,561,851)
8,414,182	**3.40%**	23,464,358	**9.48%**	(11,092,496)
6,984,191	**2.54%**	22,129,911	**8.04%**	(8,369,926)
5,855,032	**1.91%**	20,587,771	**6.73%**	(5,283,915)
5,284,420	**1.55%**	18,160,164	**5.33%**	(1,139,216)
$ 597,033	**1.85%**	$ 3,140,496	**9.74%**	$ (1,527,917)
666,352	**1.97%**	3,194,096	**9.43%**	(1,501,394)
715,442	**1.88%**	3,633,607	**9.54%**	(1,728,458)
3,367,312	**8.13%**	5,562,733	**13.43%**	(3,492,075)
3,625,638	**8.05%**	7502357.789	**16.66%**	(5,250,724)
3,626,627	**7.41%**	6962057.497	**14.22%**	(4,513,631)
3,579,511	**6.72%**	6883318.833	**12.93%**	(4,220,900)
3,471,343	**6.00%**	6756959.187	**11.67%**	(3,861,845)
2,274,959	**3.61%**	5517447.436	**8.76%**	(2,369,300)
$ 2,817,990	**3.19%**	$ 10,960,820	**12.40%**	$ (6,539,780)
3,210,575	**3.58%**	12,345,238	**13.76%**	(7,858,337)
4,122,341	**4.10%**	13,254,239	**13.17%**	(8,223,775)
6,535,777	**6.15%**	14,899,406	**14.01%**	(9,583,170)
6,113,189	**5.40%**	14,450,742	**12.77%**	(8,792,673)
6,086,272	**5.05%**	14,356,633	**11.92%**	(8,334,750)
5,794,079	**4.52%**	13,977,338	**10.90%**	(7,568,247)
5,320,836	**3.90%**	13,442,924	**9.85%**	(6,621,729)
4,437,896	**3.06%**	12,535,276	**8.63%**	(5,275,478)

Target Debt Capacity as % of Revenues (B) **5%**

	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	**Blended Revenues (1)**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service Paid by Institution (2)**	**Institution Debt Service as a % of Institution Revenues**	**Net Capacity to Pay Additional Institutional Debt Service**
VT					
Actual 2002	$ 245,121,000	$ 12,256,050	$ 24,476,000	**9.99%**	$ (12,219,950)
Actual 2003	273,277,000	13,663,850	19,876,000	**7.27%**	(6,212,150)
Actual 2004	304,649,000	15,232,450	21,840,000	**7.17%**	(6,607,550)
Actual 2005	332,264,000	16,613,200	20,026,000	**6.03%**	(3,412,800)
2006	367,749,795	18,387,490	24,736,000	**6.73%**	(6,348,510)
2007	407,025,473	20,351,274	27,969,000	**6.87%**	(7,617,726)
2008	450,495,794	22,524,790	26,358,000	**5.85%**	(3,833,210)
2009	498,608,745	24,930,437	24,677,000	**4.95%**	253,437
2010	551,860,159	27,593,008	21,035,000	**3.81%**	6,558,008

Blended revenues does not include appropriations in the amount of $239,832,000, $201,696,000, $191,418,000, $212,999,000 for fiscal years 2002, 2003, 2004, and 2005 respectively.

CWM					
Actual 2002	$ 94,493,724	$ 4,724,686	$ 8,884,626	**9.40%**	$ (4,159,940)
Actual 2003	105,938,399	5,296,920	6,657,587	**6.28%**	(1,360,667)
Actual 2004	125,874,906	6,293,745	6,349,850	**5.04%**	(56,105)
Actual 2005	124,861,611	6,243,081	7,365,582	**5.90%**	(1,122,501)
2006	137,397,717	6,869,886	8,630,924	**6.28%**	(1,761,038)
2007	151,192,448	7,559,622	8,680,245	**5.74%**	(1,120,623)
2008	166,372,169	8,318,608	8,512,917	**5.12%**	(194,309)
2009	183,075,935	9,153,797	7,158,253	**3.91%**	1,995,544
2010	201,456,759	10,072,838	6,970,086	**3.46%**	3,102,752

Blended revenues does not include appropriations in the amount of $70,027,785, $60,139,547, $56,253,309, $61,505,869 for fiscal years 2002, 2003, 2004, and 2005 respectively.

UVA (Includes UVA Wise & Medical Center)					
Actual 2002	$ 937,774,000	$ 46,888,700	$ 31,723,000	**3.38%**	$ 15,165,700
Actual 2003	1,146,440,000	57,322,000	29,731,011	**2.59%**	27,590,989
Actual 2004	1,313,377,000	65,668,850	37,978,000	**2.89%**	27,690,850
Actual 2005	1,495,099,000	74,754,950	31,959,000	**2.14%**	42,795,950
2006	1,747,471,711	87,373,586	34,033,000	**1.95%**	53,340,586
2007	2,042,444,936	102,122,247	33,560,000	**1.64%**	68,562,247
2008	2,387,209,641	119,360,482	33,081,000	**1.39%**	86,279,482
2009	2,790,170,629	139,508,531	28,363,000	**1.02%**	111,145,531
2010	3,261,151,431	163,057,572	28,723,000	**0.88%**	134,334,572

Blended revenues does not include appropriations in the amount of $176,177,000, $137,858,000, $118,125,000, $136,006,000 for fiscal years 2002, 2003, 2004, and 2005 respectively.

(1) Blended revenues consist of tuition and fees, auxiliary enterprise revenue, other income, and investment income. Figures for 2002-2005 are derived from each higher educational institutions financial statements. Figures for 2006 - 20010 are an average of the revenue growth between fiscal year 2002-2005.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments.

D	D/A	C+D	(C+D)/A	{(A*B)-(C+D)}/K
Annual Payments for Debt Service Paid by Commonwealth (3)	Commonwealth Debt Service as a % of Institution Revenues	Total Debt Payments (4)	All Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 5,118,520	**2.09%**	$ 29,594,520	**12.07%**	$ (17,338,470)
8,447,214	**3.09%**	28,323,214	**10.36%**	(14,659,364)
11,967,894	**3.93%**	33,807,894	**11.10%**	(18,575,444)
15,248,474	**4.59%**	35,274,474	**10.62%**	(18,661,274)
13,853,277	**3.77%**	38,589,277	**10.49%**	(20,201,787)
13,794,051	**3.39%**	41,763,051	**10.26%**	(21,411,777)
11,492,445	**2.55%**	37,850,445	**8.40%**	(15,325,655)
10,367,957	**2.08%**	35,044,957	**7.03%**	(10,114,520)
9,044,159	**1.64%**	30,079,159	**5.45%**	(2,486,151)
$ 1,228,502	**1.30%**	$ 10,113,128	**10.70%**	$ (5,388,442)
2,052,355	**1.94%**	8,709,942	**8.22%**	(3,413,022)
2,718,593	**2.16%**	9,068,443	**7.20%**	(2,774,697)
3,672,555	**2.94%**	11,038,137	**8.84%**	(4,795,057)
3,747,961	**2.73%**	12,378,885	**9.01%**	(5,508,999)
3,731,643	**2.47%**	12,411,888	**8.21%**	(4,852,266)
3,159,930	**1.90%**	11,672,847	**7.02%**	(3,354,238)
2,894,885	**1.58%**	10,053,138	**5.49%**	(899,341)
2,538,326	**1.26%**	9,508,412	**4.72%**	564,426
$ 6,251,173	**0.67%**	$ 37,974,173	**4.05%**	$ 8,914,527
8,432,125	**0.74%**	38,163,136	**3.33%**	19,158,864
9,791,844	**0.75%**	47,769,844	**3.64%**	17,899,006
11,390,678	**0.76%**	43,349,678	**2.90%**	31,405,272
11,965,562	**0.68%**	45998561.91	**2.63%**	41,375,024
11,908,604	**0.58%**	45468603.94	**2.23%**	56,653,643
10,380,344	**0.43%**	43461343.9	**1.82%**	75,899,138
9,776,848	**0.35%**	38139848.19	**1.37%**	101,368,683
9,261,541	**0.28%**	37984540.56	**1.16%**	125,073,031

Target Debt Capacity as % of Revenues (B)	5%				
	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	Blended Revenues (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional Debt Service
UMW					
Actual 2002	$ 35,312,395	$ 1,765,620	$ 3,052,573	**8.64%**	$ (1,286,953)
Actual 2003	43,363,056	2,168,153	2,650,144	**6.11%**	(481,991)
Actual 2004	45,023,574	2,251,179	2,640,530	**5.86%**	(389,351)
Actual 2005	48,214,847	2,410,742	2,778,699	**5.76%**	(367,957)
2006	53,634,196	2,681,710	3,122,665	**5.82%**	(440,955)
2007	59,662,679	2,983,134	3,163,945	**5.30%**	(180,811)
2008	66,368,765	3,318,438	3,170,975	**4.78%**	147,463
2009	73,828,614	3,691,431	3,161,343	**4.28%**	530,088
2010	82,126,950	4,106,347	3,163,704	**3.85%**	942,643

Blended revenues does not include appropriations in the amount of $17,872,900, $14,740,000, $13,756,007, $14,995,242, for fiscal years 2002, 2003, 2004, and 2005 respectively.

NSU					
Actual 2002	$ 34,393,984	$ 1,719,699	$ 3,422,765	**9.95%**	$ (1,703,066)
Actual 2003	34,150,358	1,707,518	2,896,097	**8.48%**	(1,188,579)
Actual 2004	39,956,066	1,997,803	2,724,431	**6.82%**	(726,628)
Actual 2005	43,804,941	2,190,247	2,673,199	**6.10%**	(482,952)
2006	47,589,688	2,379,484	4,082,483	**8.58%**	(1,702,999)
2007	51,701,437	2,585,072	5,401,025	**10.45%**	(2,815,953)
2008	56,168,441	2,808,422	5,390,316	**9.60%**	(2,581,894)
2009	61,021,394	3,051,070	5,353,902	**8.77%**	(2,302,832)
2010	66,293,643	3,314,682	5,217,283	**7.87%**	(1,902,601)

Blended revenues does not include appropriations in the amount of $37,738,292, $38,790,479, $38,692,552, $40,460,381, for fiscal years 2002, 2003, 2004, and 2005 respectively.

RU					
Actual 2002	$ 53,921,371	$ 2,696,069	$ 1,012,903	**1.88%**	$ 1,683,166
Actual 2003	55,905,216	2,795,261	398,257	**0.71%**	2,397,004
Actual 2004	60,945,935	3,047,297	139,624	**0.23%**	2,907,673
Actual 2005	67,203,046	3,360,152	141,349	**0.21%**	3,218,803
2006	72,344,079	3,617,204	138,121	**0.19%**	3,479,083
2007	77,878,401	3,893,920	-	**0.00%**	3,893,920
2008	83,836,099	4,191,805	-	**0.00%**	4,191,805
2009	90,249,560	4,512,478	-	**0.00%**	4,512,478
2010	97,153,652	4,857,683	-	**0.00%**	4,857,683

Blended revenues does not include appropriations in the amount of $37,753,726, $34,455,274, $33,131,321, $36,879,957 for fiscal years 2002, 2003, 2004, and 2005 respectively.

(1) Blended revenues consist of tuition and fees, auxiliary enterprise revenue, other income, and investment income. Figures for 2002-2005 are derived from each higher educational institutions financial statements. Figures for 2006 - 20010 are an average of the revenue growth between fiscal year 2002-2005.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

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(4) Represents the total University and Commonwealth debt service payments.

D	D/A	C+D	(C+D)/A	{(A*B)-(C+D)}/K
Annual Payments for Debt Service Paid by Commonwealth (3)	**Commonwealth Debt Service as a % of Institution Revenues**	**Total Debt Payments (4)**	**All Debt Service as a % of Institution Revenues**	**Net Capacity to Pay Additional Institutional & Commonwealth Debt Service**
$ 1,327,601	**3.76%**	$ 4,380,174	**12.40%**	$ (2,614,554)
1,617,689	**3.73%**	4,267,833	**9.84%**	(2,099,681)
1,729,661	**3.84%**	4,370,191	**9.71%**	(2,119,012)
1,683,022	**3.49%**	4,461,721	**9.25%**	(2,050,979)
2,081,089	**3.88%**	5,203,754	**9.70%**	(2,522,044)
2,079,821	**3.49%**	5,243,766	**8.79%**	(2,260,632)
1,883,519	**2.84%**	5,054,494	**7.62%**	(1,736,056)
1,909,897	**2.59%**	5,071,240	**6.87%**	(1,379,809)
1,837,907	**2.24%**	5,001,611	**6.09%**	(895,264)
$ 854,243	**2.48%**	$ 4,277,008	**12.44%**	$ (2,557,309)
1,442,060	**4.22%**	4,338,157	**12.70%**	(2,630,639)
1,948,281	**4.88%**	4,672,712	**11.69%**	(2,674,909)
3,263,865	**7.45%**	5,937,064	**13.55%**	(3,746,817)
3,632,720	**7.63%**	7,715,203	**16.21%**	(5,335,718)
3,621,961	**7.01%**	9,022,986	**17.45%**	(6,437,914)
3,214,550	**5.72%**	8,604,866	**15.32%**	(5,796,443)
3,029,371	**4.96%**	8,383,273	**13.74%**	(5,332,203)
2,465,092	**3.72%**	7,682,375	**11.59%**	(4,367,693)
$ 1,651,559	**3.06%**	$ 2,664,462	**4.94%**	$ 31,606
2,608,014	**4.67%**	3,006,271	**5.38%**	(211,010)
3,294,661	**5.41%**	3,434,285	**5.63%**	(386,989)
3,326,907	**4.95%**	3,468,256	**5.16%**	(108,104)
2,819,100	**3.90%**	2,957,221	**4.09%**	659,983
2,809,045	**3.61%**	2,809,045	**3.61%**	1,084,875
2,155,253	**2.57%**	2,155,253	**2.57%**	2,036,552
1,929,963	**2.14%**	1,929,963	**2.14%**	2,582,515
1,800,818	**1.85%**	1,800,818	**1.85%**	3,056,865

Target Debt Capacity as % of Revenues (B)	5%				
	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	Blended Revenues (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional Debt Service
VMI					
Actual 2002	$ 17,027,839	$ 851,392	$ 970,387	**5.70%**	$ (118,995)
Actual 2003	18,586,923	929,346	517,144	**2.78%**	412,202
Actual 2004	24,226,644	1,211,332	527,491	**2.18%**	683,841
Actual 2005	22,444,399	1,122,220	677,361	**3.02%**	444,859
2006	24,848,194	1,242,410	1,562,311	**6.29%**	(319,901)
2007	27,509,436	1,375,472	1,553,779	**5.65%**	(178,307)
2008	30,455,696	1,522,785	1,551,986	**5.10%**	(29,201)
2009	33,717,501	1,685,875	1,553,143	**4.61%**	132,732
2010	37,328,646	1,866,432	1,251,228	**3.35%**	615,204

Blended revenues does not include appropriations in the amount of $8,790,676, $7,861,564, $7,030,758, $7,923,995 for fiscal years 2002, 2003, 2004, and 2005 respectively.

Fiscal Year	Blended Revenues (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional Debt Service
VSU					
Actual 2002	$ 26,035,698	$ 1,301,785	$ 1,296,286	**4.98%**	$ 5,499
Actual 2003	32,499,585	1,624,979	1,539,637	**4.74%**	85,342
Actual 2004	31,385,541	1,569,277	1,776,475	**5.66%**	(207,198)
Actual 2005	34,241,035	1,712,052	1,807,388	**5.28%**	(95,336)
2006	37,723,348	1,886,167	1,687,914	**4.47%**	198,253
2007	41,559,813	2,077,991	1,697,878	**4.09%**	380,113
2008	45,786,446	2,289,322	1,651,040	**3.61%**	638,282
2009	50,442,927	2,522,146	1,692,382	**3.36%**	829,764
2010	55,572,973	2,778,649	1,699,771	**3.06%**	1,078,878

Blended revenues does not include appropriations in the amount of $28,774,074, $29,113,924, $29,022,433, $27,664,016 for fiscal years 2002, 2003, 2004, and 2005 respectively.

(1) Blended revenues consist of tuition and fees, auxiliary enterprise revenue, other income, and investment income. Figures for 2002-2005 are derived from each higher educational institutions financial statements. Figures for 2006 - 20010 are an average of the revenue growth between fiscal year 2002-2005.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments.

D	D/A	C+D	(C+D)/A	{(A*B)-(C+D)}/K
Annual Payments for Debt Service Paid by Commonwealth (3)	Commonwealth Debt Service as a % of Institution Revenues	Total Debt Payments (4)	All Debt Service as a % of Institution Revenues	Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 233,555	**1.37%**	$ 1,203,942	**7.07%**	$ (352,550)
288,220	**1.55%**	805,364	**4.33%**	123,982
384,087	**1.59%**	911,578	**3.76%**	299,754
2,110,700	**9.40%**	2,788,061	**12.42%**	(1,665,841)
2,597,428	**10.45%**	4,159,739	**16.74%**	(2,917,330)
2,569,711	**9.34%**	4,123,490	**14.99%**	(2,748,018)
2,504,304	**8.22%**	4,056,290	**13.32%**	(2,533,505)
2,434,776	**7.22%**	3,987,919	**11.83%**	(2,302,044)
2,080,352	**5.57%**	3,331,580	**8.92%**	(1,465,148)
$ 619,150	**2.38%**	$ 1,915,436	**7.36%**	$ (613,651)
1,267,104	**3.90%**	2,806,741	**8.64%**	(1,181,761)
2,272,213	**7.24%**	4,048,688	**12.90%**	(2,479,411)
3,591,774	**10.49%**	5,399,162	**15.77%**	(3,687,111)
3,584,775	**9.50%**	5,272,689	**13.98%**	(3,386,522)
3,560,745	**8.57%**	5,258,623	**12.65%**	(3,180,632)
3,100,215	**6.77%**	4,751,255	**10.38%**	(2,461,933)
2,693,331	**5.34%**	4,385,713	**8.69%**	(1,863,566)
2,374,794	**4.27%**	4,074,565	**7.33%**	(1,295,916)

Appendix E

Target Debt Capacity as % of Expenses (B) **7%**

Fiscal Year	A Total Expenses (1)	(A*B) Base Capacity to Pay Debt Service	C Annual Payments for Debt Service Paid by Institution (2)	C/A Institution Debt Service as a % of Institution Expenses	(A*B)-C Net Capacity to Pay Additional Institutional Debt Service
JMU					
Actual 2002	$ 211,250,378	$ 14,787,526	$ 10,823,362	**5.12%**	$ 3,964,164
Actual 2003	219,063,204	15,334,424	10,671,497	**4.87%**	4,662,927
Actual 2004	232,981,371	16,308,696	9,557,209	**4.10%**	6,751,487
Actual 2005	253,773,635	17,764,154	9,499,028	**3.74%**	8,265,126
2006	269,837,506	18,888,625	8,773,161	**3.25%**	10,115,464
2007	286,918,220	20,084,275	8,761,057	**3.05%**	11,323,218
2008	305,080,144	21,355,610	8,751,294	**2.87%**	12,604,316
2009	324,391,717	22,707,420	8,245,304	**2.54%**	14,462,116
2010	344,925,712	24,144,800	7,830,858	**2.27%**	16,313,942
CNU					
Actual 2002	$ 54,313,188	$ 3,801,923	$ 3,165,028	**5.83%**	$ 636,895
Actual 2003	57,799,665	4,045,977	5,994,817	**10.37%**	(1,948,840)
Actual 2004	65,374,826	4,576,238	5,295,506	**8.10%**	(719,268)
Actual 2005	70,600,762	4,942,053	7,838,360	**11.10%**	(2,896,307)
2006	77,074,852	5,395,240	10,124,216	**13.14%**	(4,728,976)
2007	84,142,616	5,889,983	10,833,772	**12.88%**	(4,943,789)
2008	91,858,494	6,430,095	10,826,212	**11.79%**	(4,396,117)
2009	100,281,918	7,019,734	10,839,100	**10.81%**	(3,819,366)
2010	109,477,769	7,663,444	10,441,069	**9.54%**	(2,777,625)
VCU					
Actual 2002	$ 503,093,420	$ 35,216,539	$ 18,124,231	**3.60%**	$ 17,092,308
Actual 2003	491,736,201	34,421,534	15,940,198	**3.24%**	18,481,336
Actual 2004	509,237,911	35,646,654	16,727,010	**3.28%**	18,919,644
Actual 2005	571,702,185	40,019,153	17,855,664	**3.12%**	22,163,489
2006	597,543,124	41,828,019	19,642,391	**3.29%**	22,185,628
2007	624,552,073	43,718,645	20,328,351	**3.25%**	23,390,294
2008	652,781,827	45,694,728	20,257,055	**3.10%**	25,437,673
2009	682,287,565	47,760,130	20,287,825	**2.97%**	27,472,305
2010	713,126,963	49,918,887	20,253,698	**2.84%**	29,665,189

(1) Represents total operating expenses.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments

D Annual Payments for Debt Service Paid by Commonwealth (3)	D/A Commonwealth Debt Service as a % of Institution Expenses	C+D Total Debt Payments (4)	(C+D)/A All Debt Service as a % of Institution Expenses	{(A*B)-(C+D)}/K Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 2,727,062	**1.29%**	$ 13,550,424	**6.41%**	$ 1,237,103
3,203,922	**1.46%**	13,875,419	**6.33%**	1,459,005
4,876,933	**2.09%**	14,434,142	**6.20%**	1,874,554
7,164,839	**2.82%**	16,663,867	**6.57%**	1,100,287
6,464,204	**2.40%**	15,237,365	**5.65%**	3,651,261
6,427,391	**2.24%**	15,188,448	**5.29%**	4,895,827
6,068,342	**1.99%**	14,819,636	**4.86%**	6,535,974
5,418,662	**1.67%**	13,663,966	**4.21%**	9,043,454
4,620,684	**1.34%**	12,451,542	**3.61%**	11,693,258
$ 1,753,619	**3.23%**	$ 4,918,647	**9.06%**	$ (1,116,724)
2,578,970	**4.46%**	8,573,787	**14.83%**	(4,527,811)
4,058,358	**6.21%**	9,353,864	**14.31%**	(4,777,627)
5,387,474	**7.63%**	13,225,834	**18.73%**	(8,283,781)
4,304,197	**5.58%**	14,428,413	**18.72%**	(9,033,173)
4,269,446	**5.07%**	15,103,218	**17.95%**	(9,213,235)
3,678,207	**4.00%**	14,504,419	**15.79%**	(8,074,325)
3,105,060	**3.10%**	13,944,160	**13.90%**	(6,924,426)
2,900,187	**2.65%**	13,341,256	**12.19%**	(5,677,812)
$ 3,502,667	**0.70%**	$ 21,626,898	**4.30%**	$ 13,589,642
4,637,863	**0.94%**	20,578,061	**4.18%**	13,843,473
6,167,512	**1.21%**	22,894,522	**4.50%**	12,752,132
6,867,739	**1.20%**	24,723,403	**4.32%**	15,295,750
7,183,249	**1.20%**	26825639.97	**4.49%**	15,002,379
7,145,721	**1.14%**	27474072.1	**4.40%**	16,244,573
6,342,404	**0.97%**	26599459.49	**4.07%**	19,095,268
5,898,940	**0.86%**	26186765.04	**3.84%**	21,573,365
5,488,526	**0.77%**	25742224.37	**3.61%**	24,176,663

Target Debt Capacity as % of Expenses (B) **7%**

	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	**Total Expenses (1)**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service Paid by Institution (2)**	**Institution Debt Service as a % of Institution Expenses**	**Net Capacity to Pay Additional Institutional Debt Service**
GMU					
Actual 2002	$ 318,056,423	$ 22,263,950	$ 12,183,602	**3.83%**	$ 10,080,348
Actual 2003	336,284,436	23,539,911	13,410,305	**3.99%**	10,129,606
Actual 2004	354,628,304	24,823,981	14,847,279	**4.19%**	9,976,702
Actual 2005	388,202,658	27,174,186	14,467,647	**3.73%**	12,706,539
2006	414,911,001	29,043,770	14,238,284	**3.43%**	14,805,486
2007	443,456,878	31,041,981	15,050,176	**3.39%**	15,991,805
2008	473,966,711	33,177,670	15,145,720	**3.20%**	18,031,950
2009	506,575,621	35,460,293	14,732,739	**2.91%**	20,727,554
2010	541,428,023	37,899,962	12,875,744	**2.38%**	25,024,218
LU					
Actual 2002	$ 53,902,726	$ 3,773,191	$ 2,543,463	**4.72%**	$ 1,229,728
Actual 2003	55,109,659	3,857,676	2,527,744	**4.59%**	1,329,932
Actual 2004	57,562,070	4,029,345	2,918,165	**5.07%**	1,111,180
Actual 2005	64,645,659	4,525,196	2,195,421	**3.40%**	2,329,775
2006	68,737,729	4,811,641	3,876,720	**5.64%**	934,921
2007	73,088,827	5,116,218	3,335,431	**4.56%**	1,780,787
2008	77,715,350	5,440,075	3,303,808	**4.25%**	2,136,266
2009	82,634,732	5,784,431	3,285,616	**3.98%**	2,498,815
2010	87,865,510	6,150,586	3,242,489	**3.69%**	2,908,097
ODU					
Actual 2002	$ 191,617,627	$ 13,413,234	$ 8,142,830	**4.25%**	$ 5,270,404
Actual 2003	192,391,274	13,467,389	9,134,663	**4.75%**	4,332,726
Actual 2004	200,151,116	14,010,578	9,131,898	**4.56%**	4,878,680
Actual 2005	215,883,684	15,111,858	8,363,629	**3.87%**	6,748,229
2006	224,734,915	15,731,444	8,337,553	**3.71%**	7,393,891
2007	233,949,047	16,376,433	8,270,361	**3.54%**	8,106,072
2008	243,540,957	17,047,867	8,183,259	**3.36%**	8,864,608
2009	253,526,137	17,746,830	8,122,088	**3.20%**	9,624,742
2010	263,920,708	18,474,450	8,097,380	**3.07%**	10,377,070

(1) Represents total operating expenses.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments

D Annual Payments for Debt Service Paid by Commonwealth (3)	D/A Commonwealth Debt Service as a % of Institution Expenses	C+D Total Debt Payments (4)	(C+D)/A All Debt Service as a % of Institution Expenses	{(A*B)-(C+D)}/K Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 3,019,604	**0.95%**	$ 15,203,206	**4.78%**	$ 7,060,744
5,092,928	**1.51%**	18,503,233	**5.50%**	5,036,677
7,236,281	**2.04%**	22,083,560	**6.23%**	2,740,421
9,068,037	**2.34%**	23,535,684	**6.06%**	3,638,502
8,447,341	**2.04%**	22,685,625	**5.47%**	6,358,145
8,414,182	**1.90%**	23,464,358	**5.29%**	7,577,623
6,984,191	**1.47%**	22,129,911	**4.67%**	11,047,758
5,855,032	**1.16%**	20,587,771	**4.06%**	14,872,522
5,284,420	**0.98%**	18,160,164	**3.35%**	19,739,797
$ 597,033	**1.11%**	$ 3,140,496	**5.83%**	$ 632,695
666,352	**1.21%**	3,194,096	**5.80%**	663,580
715,442	**1.24%**	3,633,607	**6.31%**	395,738
3,367,312	**5.21%**	5,562,733	**8.60%**	(1,037,537)
3,625,638	**5.27%**	7,502,358	**10.91%**	(2,690,717)
3,626,627	**4.96%**	6,962,057	**9.53%**	(1,845,840)
3,579,511	**4.61%**	6,883,319	**8.86%**	(1,443,244)
3,471,343	**4.20%**	6,756,959	**8.18%**	(972,528)
2,274,959	**2.59%**	5,517,447	**6.28%**	633,138
$ 2,817,990	**1.47%**	$ 10,960,820	**5.72%**	$ 2,452,414
3,210,575	**1.67%**	12,345,238	**6.42%**	1,122,151
4,122,341	**2.06%**	13,254,239	**6.62%**	756,339
6,535,777	**3.03%**	14,899,406	**6.90%**	212,452
6,113,189	**2.72%**	14,450,742	**6.43%**	1,280,702
6,086,272	**2.60%**	14,356,633	**6.14%**	2,019,800
5,794,079	**2.38%**	13,977,338	**5.74%**	3,070,529
5,320,836	**2.10%**	13,442,924	**5.30%**	4,303,906
4,437,896	**1.68%**	12,535,276	**4.75%**	5,939,173

Target Debt Capacity as % of Expenses (B) **7%**

Fiscal Year	Total Expenses (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Expenses	Net Capacity to Pay Additional Institutional Debt Service
	A	(A*B)	C	C/A	(A*B)-C
VT					
Actual 2002	$ 696,524,000	$ 48,756,680	$ 24,476,000	**3.51%**	$ 24,280,680
Actual 2003	694,570,000	48,619,900	19,876,000	**2.86%**	28,743,900
Actual 2004	697,463,000	48,822,410	21,840,000	**3.13%**	26,982,410
Actual 2005	741,921,000	51,934,470	20,026,000	**2.70%**	31,908,470
2006	758,020,686	53,061,448	24,736,000	**3.26%**	28,325,448
2007	774,469,735	54,212,881	27,969,000	**3.61%**	26,243,881
2008	791,275,728	55,389,301	26,358,000	**3.33%**	29,031,301
2009	808,446,411	56,591,249	24,677,000	**3.05%**	31,914,249
2010	825,989,698	57,819,279	21,035,000	**2.55%**	36,784,279
CWM					
Actual 2002	$ 215,017,156	$ 15,051,201	$ 8,884,626	**4.13%**	$ 6,166,575
Actual 2003	224,538,963	15,717,727	6,657,587	**2.97%**	9,060,140
Actual 2004	233,518,364	16,346,285	6,349,850	**2.72%**	9,996,435
Actual 2005	250,714,080	17,549,986	7,365,582	**2.94%**	10,184,404
2006	263,901,641	18,473,115	8,630,924	**3.27%**	9,842,191
2007	277,782,867	19,444,801	8,680,245	**3.12%**	10,764,556
2008	292,394,246	20,467,597	8,512,917	**2.91%**	11,954,680
2009	307,774,183	21,544,193	7,158,253	**2.33%**	14,385,940
2010	323,963,105	22,677,417	6,970,086	**2.15%**	15,707,331
UVA (Includes UVA Wise & Medical Center)					
Actual 2002	$1,434,993,000	$ 100,449,510	$ 31,723,000	**2.21%**	$ 68,726,510
Actual 2003	1,492,784,000	104,494,880	29,731,011	**1.99%**	74,763,869
Actual 2004	1,604,674,000	112,327,180	37,978,000	**2.37%**	74,349,180
Actual 2005	1,761,085,000	123,275,950	31,959,000	**1.81%**	91,316,950
2006	1,885,945,927	132,016,215	34,033,000	**1.80%**	97,983,215
2007	2,019,659,493	141,376,164	33,560,000	**1.66%**	107,816,164
2008	2,162,853,351	151,399,735	33,081,000	**1.53%**	118,318,735
2009	2,316,199,653	162,133,976	28,363,000	**1.22%**	133,770,976
2010	2,480,418,209	173,629,275	28,723,000	**1.16%**	144,906,275

(1) Represents total operating expenses.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments

D Annual Payments for Debt Service Paid by Commonwealth (3)	D/A Commonwealth Debt Service as a % of Institution Expenses	C+D Total Debt Payments (4)	(C+D)/A All Debt Service as a % of Institution Expenses	{(A*B)-(C+D)}/K Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 5,118,520	**0.73%**	$ 29,594,520	**4.25%**	$ 19,162,160
8,447,214	**1.22%**	28,323,214	**4.08%**	20,296,686
11,967,894	**1.72%**	33,807,894	**4.85%**	15,014,516
15,248,474	**2.06%**	35,274,474	**4.75%**	16,659,996
13,853,277	**1.83%**	38,589,277	**5.09%**	14,472,171
13,794,051	**1.78%**	41,763,051	**5.39%**	12,449,831
11,492,445	**1.45%**	37,850,445	**4.78%**	17,538,856
10,367,957	**1.28%**	35,044,957	**4.33%**	21,546,292
9,044,159	**1.09%**	30,079,159	**3.64%**	27,740,120
$ 1,228,502	**0.57%**	$ 10,113,128	**4.70%**	$ 4,938,073
2,052,355	**0.91%**	8,709,942	**3.88%**	7,007,785
2,718,593	**1.16%**	9,068,443	**3.88%**	7,277,843
3,672,555	**1.46%**	11,038,137	**4.40%**	6,511,848
3,747,961	**1.42%**	12,378,885	**4.69%**	6,094,230
3,731,643	**1.34%**	12,411,888	**4.47%**	7,032,913
3,159,930	**1.08%**	11,672,847	**3.99%**	8,794,750
2,894,885	**0.94%**	10,053,138	**3.27%**	11,491,055
2,538,326	**0.78%**	9,508,412	**2.94%**	13,169,006
$ 6,251,173	**0.44%**	$ 37,974,173	**2.65%**	$ 62,475,337
8,432,125	**0.56%**	38,163,136	**2.56%**	66,331,744
9,791,844	**0.61%**	47,769,844	**2.98%**	64,557,336
11,390,678	**0.65%**	43,349,678	**2.46%**	79,926,272
11,965,562	**0.63%**	45998561.91	**2.44%**	86,017,653
11,908,604	**0.59%**	45468603.94	**2.25%**	95,907,561
10,380,344	**0.48%**	43461343.9	**2.01%**	107,938,391
9,776,848	**0.42%**	38139848.19	**1.65%**	123,994,128
9,261,541	**0.37%**	37984540.56	**1.53%**	135,644,734

Target Debt Capacity as % of Expenses (B)	7%				
	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	Total Expenses (1)	Base Capacity to Pay Debt Service	Annual Payments for Debt Service Paid by Institution (2)	Institution Debt Service as a % of Institution Expenses	Net Capacity to Pay Additional Institutional Debt Service
UMW					
Actual 2002	$ 56,163,500	$ 3,931,445	$ 3,052,573	**5.44%**	$ 878,872
Actual 2003	58,353,111	4,084,718	2,650,144	**4.54%**	1,434,574
Actual 2004	61,403,336	4,298,234	2,640,530	**4.30%**	1,657,704
Actual 2005	65,222,568	4,565,580	2,778,699	**4.26%**	1,786,881
2006	68,561,963	4,799,337	3,122,665	**4.55%**	1,676,672
2007	72,072,336	5,045,064	3,163,945	**4.39%**	1,881,119
2008	75,762,440	5,303,371	3,170,975	**4.19%**	2,132,396
2009	79,641,477	5,574,903	3,161,343	**3.97%**	2,413,560
2010	83,719,120	5,860,338	3,163,704	**3.78%**	2,696,634
NSU					
Actual 2002	$ 101,288,959	$ 7,090,227	$ 3,422,765	**3.38%**	$ 3,667,462
Actual 2003	103,344,158	7,234,091	2,896,097	**2.80%**	4,337,994
Actual 2004	109,597,308	7,671,812	2,724,431	**2.49%**	4,947,381
Actual 2005	119,223,764	8,345,663	2,673,199	**2.24%**	5,672,464
2006	125,924,140	8,814,690	4,082,483	**3.24%**	4,732,207
2007	133,001,076	9,310,075	5,401,025	**4.06%**	3,909,050
2008	140,475,737	9,833,302	5,390,316	**3.84%**	4,442,986
2009	148,370,473	10,385,933	5,353,902	**3.61%**	5,032,031
2010	156,708,894	10,969,623	5,217,283	**3.33%**	5,752,340
RU					
Actual 2002	$ 97,609,395	$ 6,832,658	$ 1,012,903	**1.04%**	$ 5,819,755
Actual 2003	100,631,208	7,044,185	398,257	**0.40%**	6,645,928
Actual 2004	103,286,128	7,230,029	139,624	**0.14%**	7,090,405
Actual 2005	113,533,661	7,947,356	141,349	**0.12%**	7,806,007
2006	119,460,118	8,362,208	138,121	**0.12%**	8,224,087
2007	125,695,936	8,798,716	-	**0.00%**	8,798,716
2008	132,257,264	9,258,008	-	**0.00%**	9,258,008
2009	139,161,093	9,741,277	-	**0.00%**	9,741,277
2010	146,425,302	10,249,771	-	**0.00%**	10,249,771

(1) Represents total operating expenses.

(2) Represents 9c and 9d revenue bond debt service (principal and interest), installment purchases, notes payable and capital leases for which the University has recorded on their financial statements.

(3) Represents debt service payments (principal and interest) for VCBA 21st Century Program (Equipment Program), VCBA 21st Century Program (Capital Projects Program), and 9b bond referenda debt. This debt is not recorded on each institution's financial statements and they are not required to pay debt service payments. Commonwealth pays debt service payments from General Fund dollars.

(4) Represents the total University and Commonwealth debt service payments.

D Annual Payments for Debt Service Paid by Commonwealth (3)	D/A Commonwealth Debt Service as a % of Institution Expenses	C+D Total Debt Payments (4)	(C+D)/A All Debt Service as a % of Institution Expenses	{(A*B)-(C+D)}/K Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 1,327,601	**2.36%**	$ 4,380,174	**7.80%**	$ (448,729)
1,617,689	**2.77%**	4,267,833	**7.31%**	(183,116)
1,729,661	**2.82%**	4,370,191	**7.12%**	(71,957)
1,683,022	**2.58%**	4,461,721	**6.84%**	103,859
2,081,089	**3.04%**	5,203,754	**7.59%**	(404,416)
2,079,821	**2.89%**	5,243,766	**7.28%**	(198,702)
1,883,519	**2.49%**	5,054,494	**6.67%**	248,877
1,909,897	**2.40%**	5,071,240	**6.37%**	503,663
1,837,907	**2.20%**	5,001,611	**5.97%**	858,727
$ 854,243	**0.84%**	$ 4,277,008	**4.22%**	$ 2,813,219
1,442,060	**1.40%**	4,338,157	**4.20%**	2,895,934
1,948,281	**1.78%**	4,672,712	**4.26%**	2,999,099
3,263,865	**2.74%**	5,937,064	**4.98%**	2,408,599
3,632,720	**2.88%**	7,715,203	**6.13%**	1,099,487
3,621,961	**2.72%**	9,022,986	**6.78%**	287,090
3,214,550	**2.29%**	8,604,866	**6.13%**	1,228,436
3,029,371	**2.04%**	8,383,273	**5.65%**	2,002,660
2,465,092	**1.57%**	7,682,375	**4.90%**	3,287,248
$ 1,651,559	**1.69%**	$ 2,664,462	**2.73%**	$ 4,168,195
2,608,014	**2.59%**	3,006,271	**2.99%**	4,037,914
3,294,661	**3.19%**	3,434,285	**3.33%**	3,795,744
3,326,907	**2.93%**	3,468,256	**3.05%**	4,479,100
2,819,100	**2.36%**	2,957,221	**2.48%**	5,404,988
2,809,045	**2.23%**	2,809,045	**2.23%**	5,989,671
2,155,253	**1.63%**	2,155,253	**1.63%**	7,102,755
1,929,963	**1.39%**	1,929,963	**1.39%**	7,811,313
1,800,818	**1.23%**	1,800,818	**1.23%**	8,448,953

Target Debt Capacity as % of Expenses (B) **7%**

	A	(A*B)	C	C/A	(A*B)-C
Fiscal Year	**Total Expenses (1)**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service Paid by Institution (2)**	**Institution Debt Service as a % of Institution Expenses**	**Net Capacity to Pay Additional Institutional Debt Service**
VMI					
Actual 2002	$ 43,363,773	$ 3,035,464	$ 970,387	**2.24%**	$ 2,065,077
Actual 2003	46,054,768	3,223,834	517,144	**1.12%**	2,706,690
Actual 2004	48,934,990	3,425,449	527,491	**1.08%**	2,897,958
Actual 2005	51,433,922	3,600,375	677,361	**1.32%**	2,923,014
2006	54,447,950	3,811,356	1,562,311	**2.87%**	2,249,045
2007	57,638,600	4,034,702	1,553,779	**2.70%**	2,480,923
2008	61,016,222	4,271,136	1,551,986	**2.54%**	2,719,149
2009	64,591,772	4,521,424	1,553,143	**2.40%**	2,968,281
2010	68,376,850	4,786,380	1,251,228	**1.83%**	3,535,151
VSU					
Actual 2002	$ 74,439,969	$ 5,210,798	$ 1,296,286	**1.74%**	$ 3,914,512
Actual 2003	78,277,196	5,479,404	1,539,637	**1.97%**	3,939,767
Actual 2004	79,597,739	5,571,842	1,776,475	**2.23%**	3,795,367
Actual 2005	88,095,098	6,166,657	1,807,388	**2.05%**	4,359,269
2006	93,239,852	6,526,790	1,687,914	**1.81%**	4,838,876
2007	98,685,059	6,907,954	1,697,878	**1.72%**	5,210,076
2008	104,448,267	7,311,379	1,651,040	**1.58%**	5,660,339
2009	110,548,045	7,738,363	1,692,382	**1.53%**	6,045,981
2010	117,004,051	8,190,284	1,699,771	**1.45%**	6,490,513

(1) Represents total operating expenses.

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(4) Represents the total University and Commonwealth debt service payments

D Annual Payments for Debt Service Paid by Commonwealth (3)	D/A Commonwealth Debt Service as a % of Institution Expenses	C+D Total Debt Payments (4)	(C+D)/A All Debt Service as a % of Institution Expenses	{(A*B)-(C+D)}/K Net Capacity to Pay Additional Institutional & Commonwealth Debt Service
$ 233,555	**0.54%**	$ 1,203,942	**2.78%**	$ 1,831,522
288,220	**0.63%**	805,364	**1.75%**	2,418,470
384,087	**0.78%**	911,578	**1.86%**	2,513,871
2,110,700	**4.10%**	2,788,061	**5.42%**	812,314
2,597,428	**4.77%**	4,159,739	**7.64%**	(348,383)
2,569,711	**4.46%**	4,123,490	**7.15%**	(88,788)
2,504,304	**4.10%**	4,056,290	**6.65%**	214,845
2,434,776	**3.77%**	3,987,919	**6.17%**	533,505
2,080,352	**3.04%**	3,331,580	**4.87%**	1,454,799
$ 619,150	**0.83%**	$ 1,915,436	**2.57%**	$ 3,295,362
1,267,104	**1.62%**	2,806,741	**3.59%**	2,672,663
2,272,213	**2.85%**	4,048,688	**5.09%**	1,523,153
3,591,774	**4.08%**	5,399,162	**6.13%**	767,495
3,584,775	**3.84%**	5,272,689	**5.65%**	1,254,100
3,560,745	**3.61%**	5,258,623	**5.33%**	1,649,331
3,100,215	**2.97%**	4,751,255	**4.55%**	2,560,124
2,693,331	**2.44%**	4,385,713	**3.97%**	3,352,650
2,374,794	**2.03%**	4,074,565	**3.48%**	4,115,719

Appendix F

INSTITUTIONS OF HIGHER EDUCATION

DEBT MANAGEMENT POLICY STATUS

University	Board Approved Policy	Current Status
Virginia Military Institute	Yes	August 2005
Virginia State University	Yes	March 2006
Longwood University	Yes	March 2006
University of Virginia	Yes	April 2006
James Madison University	Yes	June 2006
Virginia Tech	Yes	August 2006
Virginia Commonwealth University	Yes	November 2006
College of William and Mary	No	draft
Radford University	No	draft
George Mason University	No	discussing
University Mary Washington	No	discussing
Christopher Newport University	No	discussing
Old Dominion University	No	discussing
Norfolk State University	No	discussing

Appendix G

SUMMARY OF INSTITUTIONAL DEBT POLICIES

	University of Virginia	Virginia Military Institute	James Madison University
Consideration of the consumer	No	No	No
Revenue generation	Yes	Yes	Yes
Capital commitment beyond debt service	Yes	No	No
Planning capital financing both short and long-term	Yes	No	No
Evaluation criteria for alternate financing	Yes	Yes	Yes
Affordability Measures	Annual Debt Service by Total Operating Expenses Operating Gain/Loss + Non Operating Revenue + Depreciation by Annual Debt Service	Maximum Annual Debt Service Costs as a percentage of Total Operating Expenses shall not exceed 10%	
Capacity Measures	Unrestricted Net Assets + Restricted Expendable Net Assets by Aggregate Debt Aggregate Debt by Total Net Assets + Aggregate Debt	Unrestricted Net Assets shall equal at least 25% of the Institute Direct Debt	Annual Debt Service Costs as a percentage of Total Operating Revenues shall not exceed 10% for Non Revenue producing projects. May exceed 10% for revenue producing projects.

Virginia State University	Longwood University	Virginia Commonwealth University	Virginia Tech
No	No	No	No
Yes	No	No	No
No	No	No	No
No	No	No	No
Yes	No	Yes	No
Maximum Annual Debt Service Costs as a percentage of total Operating Expenses shall not exceed 7% for non revenue producing projects. May exceed 7% for revenue producing projects.	Annual Debt Service Costs as a percentage of total University Operating Expenditures shall not exceed 7%.	Maximum Annual Debt Service as a percentage of Operating Expenses + Interest on Capital Related Debt + Principal Paid on Capital Asset Related Debt – Research Expenses shall not exceed 7%.	Debt Service to Operations Ratio of not greater than 7%.
Unrestricted Net Assets shall equal at least 25% of the University Direct Debt			